

338110

JPRS-UEA-86-031

22 SEPTEMBER 1986

# USSR Report

ECONOMIC AFFAIRS

Reproduced From  
Best Available Copy

19991008 122

DTIC QUALITY INSPECTED 3

## DISTRIBUTION STATEMENT A

Approved for Public Release  
Distribution Unlimited

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

5  
55  
A04

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service (NTIS), Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semimonthly by the NTIS, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

Soviet books and journal articles displaying a copyright notice are reproduced and sold by NTIS with permission of the copyright agency of the Soviet Union. Permission for further reproduction must be obtained from copyright owner.

22 SEPTEMBER 1986

## USSR REPORT

### ECONOMIC AFFAIRS

#### CONTENTS

##### ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT

Reports on Talyzin Commission Meetings (EKONOMICHESKAYA GAZETA, Nos 18, 32, Apr, Aug 86) .....	1
April Report	1
August Report	2
Academy Economist Interviewed on Economic Reform (V. M. Ivanchenko Interview; PLANOVOYE KHOZYAYSTVO, No 5, May 86) .....	4

##### INVESTMENT, PRICES, BUDGET AND FINANCE

Enterprise Self-Financing Concept Assumes New Significance (PRAVDA, 27, 28 May 86; SOTSIALISTICHESKAYA INDUSTRIYA, 27 Jun 86) .....	15
Implementation of New Financing Methods Critiqued, by A. Nikitin	15
Interview of USSR Finance Minister, B. Gostev Interview	22
Radical Restructuring of Overall Price Mechanism Proposed (A. Komin; PLANOVOYE KHOZYAYSTVO, No 5, May 86) .....	29

##### INDUSTRIAL DEVELOPMENT AND PERFORMANCE

Tekhpromfinplan Usefulness Under Current Conditions Weighed (Ye. Prigozhin; PLANOVOYE KHOZYAYSTVO, No 6, Jun 86) .....	38
---	----

GENERAL

Greater Environmental Protection Effort Urged  
(P. Poletayev; PRAVDA, 5 Jun 86) ..... 48

/9986

## ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT

### REPORTS ON TALYZIN COMMISSION MEETINGS

#### April Report

Moscow EKONOMICHESKAYA GAZETA in Russian No 18, Apr 86 p 5

[Unattributed report: "In the Commission for Improving Management Planning and the Economic Mechanism"]

[Text] At a regular meeting of the commission, the following questions were examined:

--Additional measures to improve the economic mechanism of everyday services for the population;

--Additional measures to improve conditions of production management for associations (enterprises) of union republic ministries for local industry;

--Measures for lowering the level of material reserves and for accelerating the turnover rate of working capital in USSR industry;

--Additional measures for improving price setting under the new terms of management;

--Providing an incentive through prices to reduce material intensiveness.

In the adopted decisions, specifically, union republic councils of ministers beginning in 1986 are allowed to disseminate to industrial enterprises, within the jurisdiction of ministries and the administrations of everyday services to the population, new terms of management established by the resolution of the USSR Council of Ministers for production associations (enterprises) of union republic local industry ministries.

Production associations (enterprises) and organizations are permitted, independently of their departmental subordination, to supply (sell) their above-norm and unused equipment, tools, raw materials and materials (including those funded and centrally distributed) to the production associations (enterprises) of the local industry to be used for the manufacture of consumer goods. Subsequently, they are required to notify the appropriate regional USSR Gosnab organs.

Local industry ministries (administration) are allowed to set for subordinate associations (enterprises) above-plan targets for limits on outlays per ruble of output not to exceed .5 percent over those originally approved by the ministry (administration).

Ministries and departments of the USSR are required to exercise control for meeting targets by accelerating the turnover rate of working capital and by including above-norm reserves of commodity stocks and uninstalled equipment in the economic turnover in the 12th Five-Year Plan from their actual surplus at the end of each quarter.

The USSR State Committee on Prices is required, when setting wholesale prices for new technology, including prototypes and custom orders, to stipulate a level of profitability not lower than what has been set by the plan for the products of the producer-enterprise or for alternative products--i.e., to establish a single procedure for determining the profitability level in prices currently in use for series production in the entire machinebuilding industry.

#### August Report

Moscow EKONOMICHESKAYA GAZETA in Russian No 32, Aug 86 p 8

[Unattributed report: "In the Commission for Improving Management Planning and the Economic Mechanism"]

[Text] The question of refining the standard instructions and methodological documentation regulating the operation of associations and enterprises under the new terms of management was examined at the meetings of the Commission for Improving Management, Planning, and the Economic Mechanism. Guidelines were provided for drafting proposals for introducing necessary amendments to the regulations when they contradict existing decisions and limit the rights and independent of enterprises.

Question relating to the drafting of proposals for improving the economic mechanisms in construction and preparing a draft of the law on socialist enterprise were examined.

In line with the adopted decisions the following organizations will be transferred to the new method of management: production associations (enterprises) of the All-Union Production Association "Soyuzenergostroyprom" [Union Power Plant Construction Industry] and the Main Administration for Construction Mechanization of the USSR Ministry of Power and Electrification, associations and enterprises of the USSR Ministry of Geology, the Main Administration of Geodesy and Cartography at the USSR Council of Ministers, and the USSR State Motion Picture Industry.

On the whole, proposals for transferring the production associations of the Ministry of Petroleum Industry and the Ministry of the Gas Industry to the new method of management were approved. The procedures for transferring common-use

transport ministries and associations (enterprises) subordinate to the union-republic council of ministers also were approved. It was specified that the target dates for transferring these ministries and associations (enterprises) will be determined by the union-republic commissions for improving management, planning, and the economic mechanism.

Methodological instructions and statutes for the USSR Ministry of Light Industry drafted in accordance with the CPSU Central Committee and the USSR Council of Ministers decree "Concerning the Improvement of Planning, Economic Incentives, and Management of Consumer Goods Production in the Light Industry" were coordinated at the meeting.

The commission approved the work being carried out in the Uzbek SSR to implement new types of regional and interbranch management. It was established that the Uzbek SSR Council of Ministers has been empowered to approve a statute on the Termex Regional Interbranch Association as well as adopt other decisions necessary for its production operations.

The new type of regional-interbranch management must promote the development of production and nonproduction infrastructures, resolution of social questions, more complete utilization of secondary raw materials and local resources, and creation of new production facilities for their processing.

/6662

CSO: 1820/207

## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### ACADEMY ECONOMIST INTERVIEWED ON ECONOMIC REFORM

Moscow PLANOVOYE KHOZYAYSTVO in Russian No 5, May 86 pp 37-45

[Interview with V.M. Ivanchenko, Deputy Director of the Institute of Economics of the USSR Academy of Sciences, by A.A. Simonyan, editor of a section of the journal: "Planning and Intensification of the Economy"]

[Text] The 27th CPSU Congress demanded further improvement and intensification of the management system's role in the acceleration of scientific and technical progress and the intensification of the economy as one of the main tasks. V.M. Ivanchenko, Deputy Director of the Institute of Economics of the USSR Academy of Sciences, discussed the tasks facing science and the practical sphere stemming from this with A.A. Simonyan, editor of a section of the magazine.

[Question] Vasiliy Matveyevich, what is the essence of the reforms being conducted and coming reforms in the system of administration and management methods in the situation of intensification of the economy?

[Answer] The Central Committee's Political Report to the 27th CPSU Congress provided an exhaustive answer to this question. The profound reorganization of the management system was brought to a head and brought about by the need to accomplish the new tasks in the economy and by actual changes in the productive forces and production relations. It involves making fuller use of the possibilities of socialism, "actually subordinating all of our production to the public needs and to the satisfaction of the people's needs, and focusing management on enhancing effectiveness and quality, accelerating scientific and technical progress, developing an interest in the results of the labor, initiative and socialist enterprise in each element of the national economy, particularly in the labor collectives." (Footnote 1) (M.S. Gorbachev, "Politicheskiy doklad Tsentralnogo Komiteta KPSS XXVII syezdu Kommunisticheskoy partii Sovetskogo Soyuz" [The CPSU Central Committee's Political Report to the 27th Congress of the Communist Party of the Soviet Union], Moscow, Politizdat, 1986, p 41) This required a comprehensive approach to the improvement of the administrative system and management methods, and the preparation and implementation of radical reform.



The CPSU Central Committee and its Politburo defined the following basic directions for reorganizing the management system:

- enhancing the effectiveness of centralized management of the economy;
- expanding the independence of associations and enterprises, and increasing their responsibility for the achievement of good end results;
- converting to economic methods of management at all levels of the national economy;
- providing administration with modern organizational structures with a view to developing production concentration, specialization and cooperation;
- achieving the optimum combination of branch and territorial administration of the economy for all aspects of the economic and social development of republics and regions;
- effecting all-around democratization of management and enhancing the role of the labor collectives in management.

It is a matter of having a clearly defined prospect for the creation of an integral management system which measures up to the new tasks and conditions involved in economic development, while at the same time, even now, during each year of the 12th Five-Year Plan, of realistically applying the advantages of the socialist planned economy in the process of converting it to the intensive path of development. An analysis of practical experience has shown that the lag in the qualitative reform of the administration system and management methods behind the development of production relations is holding up the resolution of non-antagonistic conflicts in this system and consequently, also the effective application of the potential capabilities and advantages objectively inherent in the planned economy.

During the building of socialism these advantages were graphically manifested in the social orientation of production's development and in the concentration of resources for resolving the important national economic problems; in the securing of dynamism, rapid rates and the development of a modern, large-scale economy; in the resolution of problems involved in distributing the productive forces with a view to the comprehensive economic and social development of the Union republics, and so forth.

It was pointed out at the April 1985 Plenum of the CPSU Central Committee that the "nation has achieved large successes in all areas of public life. Relying upon the advantages of the new system, it has ascended to the pinnacles of economic and social progress within a short historical period of time. Today, the Soviet Union has a powerful, thoroughly developed economy and skilled cadres of workers, specialists and scientists. We are solidly in leading positions in the world in many areas of development of production, science and technology." (Footnote 1) ("Materialy Plenuma Tsentralnogo Komiteta KPSS, 23 aprelya 1985 g." [Materials of the 23 April 1985 Plenum of the CPSU Central Committee], Moscow, Politizdat, 1985, pp 6-7) We also know the main causes of unutilized possibilities today, however. They are caused by the fact that the administrative system, management methods and workstyle lag behind the development of the productive forces and improvements in production relations, behind

the new conditions and the tasks involved in the building of communism. The 27th CPSU Congress revealed prospects for realizing these advantages of the planned economy, primarily in the resolution of problems of scientific and technical progress, intensification and acceleration of economic growth. This is the essence of the qualitative changes in the management system.

We know that the advantages of the new system cannot be realized automatically. Experience has shown that success depends upon achieving conformity between the development of the productive forces and production relations, their reflection in the management system and the level of organization of administration. This approach is essential for the timely resolution of essentially dialectical contradictions in the planning system and for taking the specific tasks and conditions of this or that stage of socialist development into account in management. The contemporary stage in the development of a communist society is making specific demands of the system of planned administration as a whole and of its management mechanism. This is due to significant changes in the level of production socialization and labor cooperation, the scales of production and its interbranch integration, the increased dynamism of scientific and technical progress, and the enlarged role of the criteria of public production's intensification and effectiveness as related to the resolution of important social problems.

[Question] What should the system of planned management be taken to mean?

[Answer] It is primarily an integrated, organically coordinated, integral system of production relations, economic, organizational and legal forms and methods of management. It is based on public ownership of the means of production, the law of planned development and the basic economic law of socialism, unity of the essential categories of socialism and elements of the superstructure. Planning is the nucleus of the system, and from this standpoint it constitutes a socioeconomic form of implementation of relations conforming to plan and of the effect of the law of conformity to plan within the system of economic laws under the specific historical conditions. This is why, when we speak of the development of the management system, we should have in mind primarily the improvement of relations conforming to plan, based on consistent and comprehensive implementation of the principle of democratic centralism, which is objectively inherent in the socialist system of management.

[Question] But can one speak of a certain subordination of the structural elements of management?

[Answer] Of course, but the main thing is that these elements are organically integrated. As far as the effect of the law of planned development is understood, it is mediated through planning and realized within the system of administration and management methods. The entire system of socialism's economic laws affects this process. As an objective form of the action of socialism's economic laws, planning calls for the subordination of all elements of the planned administration system and its management mechanism. Their place and role, their sphere and the limits of their functioning are determined, coordinated and controlled by relations of conformity to plan, including those based on the effect of the law of cost and the development of money-exchange relationships in socialist production. This applies primarily to the development of

relations of economic self-sufficiency, operational and management independence, and initiative in the labor collectives as the most important directions for further strengthening democratic centralism.

The contemporary level of production relations requires their integral reflection in the administration system. The modernization of production, based on the latest achievements of science and technology, which is expected to produce qualitative changes in the nation's productive forces and to expand possibilities for accelerating the society's economic and social development, is the material and technical foundation for these reforms. "We must proceed along the line of further strengthening democratic centralism," M.S. Gorbachev has stated. "Enhancing the effectiveness of the centralized principle in administration and planning, considerably enlarging the economic independence and responsibility of the enterprises and associations, making active use of more flexible forms and methods of management, economic self-sufficiency and money-exchange relations, of the entire range of economic levers and incentives--this is the basic essence of the reorganization." (Footnote 1) (M.S. Gorbachev, "Korennyy vopros ekonomicheskoy politiki partii" [A Fundamental Issue of Party Economic Policy], Moscow, Politizdat, 1985, p 22)

And so, the most important direction of the party's economic strategy is accelerated technical improvement of production and the creation of an integral system of management which measures up to the contemporary tasks by strengthening democratic centralism. It is planned to double the nation's production capability by the year 2000, along with its fundamental and quality renewal. The system of administration and management methods are designed to actively affect the interests of the workers and to involve every Soviet person in the achievement of the assigned goals. This makes it necessary to develop forms and methods of management whereby the achievements of science and technology and the human factor would comprise a single whole and would be oriented toward intensification and effectiveness in public production and toward acceleration of the nation's social and economic development. Real technical reequipment of production, a new cadre policy, attention to the society's social development and subordination of the management system to these tasks--this is a graphic description of the changes occurring in the system of administration and of those to come.

[Question] In your opinion, what do science and praxis need to do to improve the management system in the contemporary situation?

[Answer] Economic science must first of all implement the principles contained in the Central Committee's Political Report to the 27th CPSU Congress: "Based on the demands of life, we need to take a new look at certain theoretical ideas and concepts. This applies to such important problems as the interaction of productive forces and production relations, socialist ownership and economic forms of its implementation, money-exchange relations, the combining of centralism and independence for management organizations, and others." (Footnote 2) (M.S. Gorbachev, "Politicheskii doklad Tsentralnogo Komiteta KPSS XXVII syezdu Kommunisticheskoy partii Sovetskogo Soyuza," p 48)

an integral system of relations of which the planning work of enterprises, labor collectives, planning and design, technological and other organizations is an organic and active part. The financing and credit policy, the system of prices and price setting, norms and standards, economic levers and incentives are also in need of further scientific validation. These are the directions in the improvement of planning which are expected to raise the scientific level of the five-year plans as the main form of planning for the nation's economic and social development at the contemporary stage. The resolution of this problem requires precise delimitation of the functions of five-year and annual planning.

The five-year plans have not yet become a law in the full sense of the word with respect to defining the economic activities of enterprises, the results of their work, the organization of socialist competition or the application of incentives and sanctions. In reality, these functions continue to be assigned mostly to the annual plan. Within the limitations of the annual plan, however, it is impossible to assess such extremely important aspects of the enterprises' performance as the technical improvement of production, based on the achievements of the latest engineering and technology, and on its specialization. It is unrealistic to expect to accomplish the tasks involved in intensification, raising labor productivity, improving product quality, enlarging and renewing the assortment, without these things.

Financial planning for the five-year period, which is expected to intensify the development of stable economic norms, needs to be improved. Also important is the fact that direct economic ties and contractual relationships still do not embrace all production-management relations and are not included in the technology and the organization of planning. A complete balance between production and consumption cannot be achieved without coordinating production and delivery plans among all of the management elements.

The five-year plans must assume a more solid position within the system of economic management of the economy and must be further improved at the scientific and the practical level. With respect to annual planning, the transfer of the functions involved in their development and approval to the level of the ministry, the USSR Gosplan, the associations and enterprises, must be accomplished promptly and efficiently. It is an urgent task of economic science and praxis to work out these problems.

The joint resolution of these national economic problems constitutes the contemporary form of economic science's conversion into a direct productive force of the society and a skillful combination of the development of basic economic theory and actual participation in the improvement of all aspects of management practices.

[Question] What is the objective of the redistribution of management functions to the benefit of the primary element?

[Answer] It seems to me that we need to speak primarily of the functions of ministries, associations and enterprises pertaining to the methods, the technology and the organization of planned management. We are dealing with such tasks as scientific and technical progress, reproduction on the basis of the

In other words, we need to eliminate the opposition, "the weighing," of conformity to plan and money-exchange relations, real-physical and cost categories, centralism and democratism, administrative and economic methods in the planned management system.

K. Marx stated the following: "As an aggregate whole, an organic system has prerequisites, and its development in the direction of integrity consists precisely in subordinating all of the society's elements to it or creating the missing parts from it. The system thus becomes a whole in the course of its historical development." (Footnote 1) (K. Marx and F. Engels, "Soch" [Works], Vol 46, Part 1, p 229) The integrity of the system's structural elements is determined by the basic, essential relationships, and the growth of effectiveness in its functioning is the criterion of its progressiveness. Science has to reveal from this standpoint how money-exchange relations in the planned system of management are directed and regulated by the plan, by the state's social policy and by the strengthening of public ownership of the means of production, as an example.

It is also important to demonstrate that the comprehensive reorganization of the management system cannot weaken the forms and methods of centralization of the planned management system, but is designed to improve them, making the system more flexible by means of optimal redistribution of the functions and a significant enlargement of those functions at the primary level. It enhances the role of balance and standard planning and of the economic levers contained in the system of direct economic ties and contracts included in the technology and the organization of the process of compiling plans "from below." Precisely this approach creates the conditions for strengthening democratic centralism and for expanding the rights and the responsibility of production associations and enterprises in the management of the economy.

It is essential for planned management to become truly economic in substance, making it possible to achieve good end results. It should also be pointed out that the enlargement of the economic independence of production associations (enterprises) and the enhancement of their responsibility are not the goal in and of themselves. The main thing is to shape a system of planned management capable of providing a high level of mobility and balance in production not just according to criteria for the macrolevel, but also for the specific enterprise (actual product-mix balance in the dynamics of the entire production cycle). While the new management conditions required converting to flexible production systems, planning and management need organizational and economic methods making it possible to respond rapidly to the latest achievements of science and technology and to changes in demand in the domestic and international markets.

It is important to redistribute the functions and to improve the organizational structure of administration and management methods precisely according to the criteria of flexibility, dynamism, the maintaining of balance and economic responsibility, while consistently implementing the Leninist principle of democratic centralism. Take the intensification of centralized planning as an example. It calls not for the issuing of assignments "from the top" "downward," as some people mistakenly believe, whereby the ministry and the USSR Gosplan are assigned the role of intermediary between the USSR Gosplan and the enterprises, but for

latest engineering and technology, the improvement of redistributive relations, effectiveness and intensification. At what level are these problems to be resolved in the society's interest? What tools and methods are to be used? How are they to be combined into a system of functions pertaining to the objects and the subjects of management? These functions of planned management, which embrace both vertical and horizontal relations, are becoming the basis for an appropriate restructuring of organizational structures, management forms and methods, and workstyle. The redistribution of functions related to the objects of planning and management, for example, must be done with a view to enhancing the role of scientific and technical progress: production specialization and cooperation, resolution of problems of social development, improvement of inter-branch and territorial relations, accelerated development of the infrastructure, and environmental protection. The functions of the production and scientific production associations and enterprises as subjects of management must be expanded in conformity with these tasks. This calls for fundamental changes in the technology and the organization of planning and management, and in methods of influencing the group of interests.

The redistribution of management functions must take into consideration the need to intensify and develop the principle of democratic centralism and must be an effective direction for the restructuring of planned management as an integral system.

[Question] But this sort of redistribution of functions among the objects of management needs to be fully understood. For instance, what should the ministry as the branch management agency and the territorial management agencies be responsible for?

[Answer] The ministry is expected to focus its efforts primarily on long-range plans of reproduction for production's technical reequipment, its specialization and intensification, achievement of the world level of labor productivity and a fundamental improvement of product quality, and on satisfying more fully the needs of the national economy and the population for specific types of products. These are the basic functions of the ministries.

The territorial management agencies and the Union republics must have leading functions, including matters pertaining to social development, environmental protection, the use of local labor resources, the development of an effective infrastructure, and so forth. The distribution of functions among the objects and subjects of management therefore involves organically interconnected elements of an integral management system. When selecting the criteria for determining the economic independence and the responsibility of the primary element, it is important to define its place with respect to accomplishing the tasks involved in reproduction (providing prospects for stable development), production (satisfying the needs of clients and consumers for a certain assortment of products of a certain quality), and the enhancement of management effectiveness (production and reproduction, and not merely day-to-day production, as is ordinarily the case).

[Question] In view of what you have said, it would apparently be expedient to apply certain criteria for redistributing functions within the system of planning and management. What are these criteria?

[Answer] The criteria include the following:

In reproduction--the renewal of fixed production capital on a qualitatively new technical basis by means of reequipment and reconstruction (without new construction), achieving the ability to resolve the contemporary problems of intensification, growth of labor productivity and improvement of the quality of products needed by the society and by specific consumers. The general conditions for this are the following: the development of a unified scientific and technical, and production policy for the branch, the republic and the production complex, leaving the necessary resources (depreciation allowances and a portion of profits) at the disposal of the enterprise or organization, taking into account the extensive use of credit.

In production--the achievement and the maintaining of complete balance in producer-consumer relations. The reproduction criteria must be organically coordinated with and subordinated to production's ultimate objectives. The basic prerequisites are the following: the conversion of direct economic ties and contractual relations between the enterprises and design, planning, technological, construction, transport and other organizations into a system in which the primacy of the consumer's interests is ensured; the establishment of a certain stability in the planned basis for relations of real economic self-sufficiency (ceilings, norms, material and financial resources); legally standardized production-management relations and economic responsibility.

In the achievement of management effectiveness--stable growth of net output (new output by the labor collective) providing for a simultaneous increase in wages and in net profits.

These criteria for the economic independence and responsibility of the enterprises, taken together, are simultaneously the criteria for good end results from their work, organically combined with public interests and the collective and personal interests of the workers.

[Question] Vasiliy Matveyevich, the economic experiment has shown that the combining of the new management conditions with the certification of production's technical level, with a minimum of valuation and capital-producing indices oriented toward the end results, is an active means of affecting the group of interests and subordinating them to the objective of enhancing production effectiveness. In this connection, I would like to know what, in your opinion, is the most important thing with respect to directing scientific and technical progress and accomplishing the tasks involved in intensification.

[Answer] In the resolution of this matter it is important to correctly determine the role of centralized planning and management, based on the fullest possible application of the planned management system. It is a matter of creating a unified system of management of economic and social development, a unified management mechanism in which we ordinarily single out management of scientific and technical progress for purposes of looking more deeply into the essence of the specific features of scientific and technical processes and for providing organic unity in the management of the economy.

Consequently, the system of management of scientific and technical progress must be viewed primarily from the standpoint of improving the unified system of management of the national economy and from the standpoint of developing specific forms, methods and organizational structures for managing the process of scientific and technological development. It must embrace an extensive group of problems, including the system of plans, programs, criteria, valuations, indices, norms and standards, the system of financing, price-setting, relationships of economic self-sufficiency, wages and labor incentives, and so forth. These are blocks in a unified system of management designed to ensure that the scientific and technical progress plans and processes are inseparably linked with other divisions of the economic and social development plans.

The system of organizing management of scientific and technical progress, which takes into account the phased nature and the goal-orientation of the functional differentiation of the process, the gathering and processing of information, consists of blocks reflecting its specifics. In the accomplishment of the tasks involved in scientific and technical progress, it is important to have the optimal combination of the entire system of centralized planning, economic levers and incentives, modern organizational forms and methods of control of the "research-mastery-employment of new equipment" cycle.

The planning of scientific and technological development must become an extremely important element in the development of plans for the nation's economic and social development. It is based on the program-special-purpose method, which makes it possible to organically coordinate the objectives, the resources and the effectiveness with which they are used.

[Question] The planning of scientific and technological progress is based primarily on a system of plans, of course. The methods of scientific analysis, alternative calculations and a system of forecasts are employed in their development. A comprehensive approach is required, however. What is important in this direction?

[Answer] First of all, it is important for the comprehensive program of scientific and technical progress to be the main element in the unified system of plans for economic and social development and for the development of science and technology. It contains the concept of the plan for economic and social development as a unified national economic complex and the most important directions of scientific and technical progress.

The factors of intensive economic growth and enhanced effectiveness of public labor are not comprehensively reflected in the plans for scientific and technical progress, however. The plan for the development of science and technology does not cover all of those areas of the enterprises' production and management work which determine scientific and technical progress. It cannot be limited to any single section of the plan. It is the task of the entire system of indices, balances and programs, and all of the sections and reserves in the plan for economic and social development which determine structural policy.

The plan should be directed toward progressive changes in national economic proportions, in the structure of the products turned out and in their qualitative



features. This can be achieved by rapidly and effectively raising production's technical level on the basis of the latest engineering and technology. It is not enough merely to develop and adopt new models of equipment and technology and to evaluate them on the basis of the number of measures, however. It is necessary to provide for the series and large-scale production of the new equipment on a scale making it possible to technically reequip the sectors of the national economy, to carry out comprehensive mechanization and automation of the production processes, and to produce more products with the latest technology.

In the situation of rapid rates of renewal and modernization of fixed production capital, its technical and economic level determines in great part also the structure of production, its intensification and effectiveness. It is apparent today that expanded reproduction can only be effectively carried out on the basis of the latest achievements of science and technology. This essentially links the capital construction plan and the plan for the development of science and technology into a single scientific and production complex. Because of this, the system of indices for planning scientific and technical progress must also thoroughly describe the processes involved in the changing technical level of production and the products, their qualitative features and the economic and social effects of the measures carried out. This is why we must have closer coordination of plans for scientific and technical progress with plans for output and capital investments.

[Question] But if we take this approach to the organization of planning and the provision of incentives for the technical level of production and of the product, what practical steps should be taken?

[Answer] I believe that we need to do primarily the following: focus the attention of scientific organizations, ministries and the specialists in the planning agencies on the comprehensive elaboration of problems involved in raising the production's technical level and its specialization in the five-year plan, with assignments distributed by year. The provision of incentives should be linked to the fulfillment of these assignments;

-- set specific schedules and the procedure for converting all of the machine-building branches to the planning of systems of machinery, production and delivery of complete sets of equipment and units as the definitive form of five-year planning for raising the technical level of production, its mechanization and automation;

-- ensure a certain outstripping rate of development of draft plans for scientific and technical progress as parts of the plans for the nation's economic and social development, and validate at that stage the technical, economic and social conception of the five-year plan as a unified whole;

-- make necessary changes in the development of the system of norms and standards, and control figures, which impose certain demands upon the ministries and departments in matters of intensification and enhancement of the effectiveness with which the operating production capacity, capital investments and all other types of resources are used.

This approach can only be implemented if based on an appropriate restructuring of the technology and the organization of planning.

The development of this technology and the existence of the above-listed criteria defining the extensive authority of the primary element in the planning and management of production and its technical improvement will make it possible to specifically define the enterprise's place in the integrated process of planned development "from the top" and "from below," as well as to identify the stimulating functions of plans for scientific and technical progress, which are organically coordinated with the end results of the management process. In other words, a certain effect is achieved by combining the special functions of the plan as the central element in the management system with all other structural elements (price, financing and credit relations, relations of economic self-sufficiency, the profit distribution mechanism, and others). The necessary requisites for this should be provided by centralized planning, which organically includes every enterprise as a structural element of the unified national economic, branch and territorial complex with precisely defined functions, resources, objectives and the most important technical and economic parameters for independent production management. This involves no opposition of centralized management and the development of independence, of administrative and economic methods, plans and incentives, of direct and indirect regulators of enterprise operations. This is the main essence of real participation by the labor collectives of enterprises in production planning and management.

Copyright: Izdatelstvo "Ekonomika", "Planovoye khozyaystvo", 1986.

11499

CSO: 1820/157

## INVESTMENT, PRICES, BUDGET AND FINANCE

### ENTERPRISE SELF-FINANCING CONCEPT ASSUMES NEW SIGNIFICANCE

#### Implementation of New Financing Methods Critiqued

Moscow PRAVDA in Russian 27 May, 28 May 86 p 2

[Article by A. Nikitin, PRAVDA special correspondent, under the rubric " The Economy: On the Paths of Reconstruction": "Finances for Acceleration"]

[Text] 1. "Thinking" Industry

Like a small paper boat, from the distant rows of the hall swam to the presidium of the party meeting of Minkhimmash [Ministry of Chemical and Petroleum Machine Building] workers the last note of the evening. A. Ignatyev, the party committee secretary, opened it. In connection with the restructuring of the management structure which has been worked out, the note stated, all of the corridors in the ministry are overflowing with excess bookcases, tables and chairs...

Aleksandr Vasilyevich thought a little and then said calmly, not hurrying:

"Excess old office furniture, of course, will soon be written off. But as to the comment about the restructuring, I do not agree. It is still far from completed. Not that it just began today."

When and with what did the restructuring begin which is turning our industry, in the words of the poet Andrey Voznesenskiy, into "thinking industry," and thinking in a new way?

As I earlier crossed the threshold of an old detached house, which stands on Bezbozhnyy by-street in the capital, I wished first to learn why Minister K. Brekhov, who had very recently taken over Minkhimmash, twice in a row went to Uralkhimmash in Sverdlovsk, the largest association in the branch.

There did not seem to have been any extraordinary goings-on there. Nor were any special ceremonies or grandiose anniversaries anticipated. The minister had to resolve on the ground one delicate issue: to urge the collective to compile an intense plan for 1985 and for the 12th Five-Year Plan.

"And what about finances?" The Ural comrades asked with concern.

"We will get you the finances," the minister placated them.

In response the association managers promised to try to insert in the draft plan "an appropriate increase."

When I arrived at the association large meetings were going on in the sections, and at the enterprise level were meetings of activists and other meetings in conferences. The administration, party committee and committee chief attempted "to reach" each worker and engineer, and include them in the search for reserve capacities, involve them in compiling a draft plan which would embody the increase required by the ministry.

Let us be frank. This work was very complicated and nerve racking. Some people were making reports and others were receiving targets and instructions. Every day on the huge sheets of paper where the schedules of meetings and group discussions were written down, squares and "zeros" were painted over with different colored pencils.

And in these very days when the minister twice went to Uralkhimmash in order to take it by storm, the Sumy machine builders twice went to the ministry, in order to take the minister by storm. The Sumy personnel, in contrast, themselves asked and insisted that their plan be increased and product lists expanded. And they did not simply request, but they proposed their variant of more extensive cost accounting, which would free the branch headquarters of the majority of its concerns associated with financing its reproduction cycle and its modernization.

And a strange situation indeed took place! One group beseeched the minister and the other themselves requested that the plan be increased. What is going on? It is a fundamentally different approach to economic management. One enterprise, by the way a very good enterprise, was guided basically by traditional administrative methods. The other, also very good, by the new, economic methods. The Sumy employees decided to extend the experiment; to shift to full cost accounting and simultaneously to self-financing.

At the Sumy Machine Building Scientific Production Association imeni M. V. Frunze, where I went soon after leaving Uralkhimmash, I did not sense any turmoil or any drudgery of meetings. The meetings of activists and party meetings were going on in their usual way, but the content of the meetings had noticeably changed. Instead of the old "Come on, Come on!" people were seriously thinking about what economic norms are and with what content they can be filled.

The essence of the innovation was that the Sumy personnel decided to reject altogether uncompensated financing of their current, continuously modernizing production by anyone. To the contrary, they committed themselves, as it were, to partly finance the state budget and the ministry. Of course the comparison is figurative. The ownership relations did not change. The association was and remains a state enterprise, and not an "independent principality." On the other hand, the attitude of the collective toward profits is fundamentally

changing. The portion of profits earned by the Sumi association, which was precisely stipulated in advance by the distribution norm, remains entirely at their disposal.

What are these norms and what is their financial purpose? From each ruble of profit the Sumi association allotted to the budget 27 kopecks and to the ministry 2 kopecks. There were 71 kopecks left for their own needs. Of these, 45 kopecks are for expansion of production and its technical modernization, 15 for material incentives and 11 for the social development of the collective.

Do not think that it is kopecks that are being calculated. The profit which remained at the disposal of the association was more than 40 million rubles. Experience, of course, is not yet great, but it is instructive. Labor productivity increased 30 percent and the average wage of workers increased 6 percent and constituted 223 rubles. No less important is the fact that payments to the budget increased by one third from the previous year.

"It is also difficult to overestimate the importance of the Sumi experiment," stated I. Levchuk, deputy chairman, USSR Gosbank Administration, "because of the fact that the association collective is actively participating in the formation of state income. The system of so-called self financing is good in that allocations to the budget and the ministry occur not only first, but also in proportion to the increase in the association's own part of the profit.

The changes also affected other aspects. The debates about authority and independence which people in this enterprise frequently like to argue about, somehow noticeably quieted down. And they quieted down because, in and of themselves, statements about authority are not worth much if they are not backed by the main thing, financial independence. Now, when this independence appeared, the collective became more interested in not merely thinking about tomorrow, but in forecasting its events.

The Ural association did not meet last year's plan, which was compiled at noisy meetings, was insufficiently balanced and not entirely backed by resources and orders, and this year's plan also began badly. And the Sumy comrades significantly increased the output of their products, especially modernized products. And overall, despite the greater degree of financial risk, they felt more confident. They not only themselves earned all their development funds, but they also allocated from profits 16 million rubles to the state budget. Yes, and a Sumy official, Hero of Socialist Labor V. Lukyamenko, general director of the machine building scientific production association, ended up as minister.

The dialectical nature of the restructuring concerns not only the "living material" of production -- people -- most of all managers. Today it is already apparent that cost accounting self financing does not solve all economic questions. Although it is helping in the search for internal reserves and is dealing a substantial blow against the notorious "val" [emphasis on quantity], so far it has changed nothing in the external circle of economic relations. Many contradictions still remain. In particular, the Sumi association is using profits which were based on the old "cost" method of

determination. Enterprise profits and ministry income, especially today, largely depend on prices. It turns out that it is not so advantageous to reduce production costs. If prices are reexamined this may lead to a reduction in profits. How can the interests of the collectives and society be better balanced under these new conditions?

Probably this can be done by including in tomorrow's broad orbit of the Sumi experiment the principle of price formation based on use value. Yes, and the consumers themselves, after shifting to full cost accounting, obviously will react with interest and strictness to price formation for the products of subcontractor partners. To enliven this interest, I believe that it is also necessary to have a mechanism for reciprocal economic ties in industrial branches, independent of the dictates of the producer.

Might contractual prices be used, as is done in light industry? According to what criteria? Probably there should be several price variants depending on the quality of the product and time required for its manufacture. Time is also money!

Of course experiments are very necessary. But are experiments always effective when they are torn out of the overall context of economic life? First they may be about self financing, then about wages for engineers, and then, say, about price formation, etc. It can not be tolerated for initiative and inquiry also to be divided by departmental boundaries.

Today Minkhimmash is preparing to shift all of its enterprises to working according to the Sumy method. The example warrants imitation. The Sumy association fulfilled all of the last 15 annual plans and all 3 five-year plans in a row, and without a single adjustment! But can everyone fully use this experience? Almost one in ten enterprises in the branch is subsidized or low-profit. They cannot immediately enter the ranks of profit-making enterprises. Does this mean that we are again talking about redistribution of income and leveling?

"No, there can also be no talk of leveling," stated Minister V. Lukyanenko.

We are talking about a form of assistance which, without harming the collectives that are working well, would help the rest acquire a taste for working on the basis of presently flexible economic norms. There is one more innovation in this. The subsidy will play its role not directly, through infusions from the ministerial fund for "financial acceleration," but through a special system of economic norms, which are elective, but lead to one goal, that of accelerating economic and social development.

What is helping and what is interfering with this strategy? This will be discussed in Part 2 of the article.

## 2. Credit -- A Form of Trust

"Have you seen any crying ministers anywhere?" B. Gostev, USSR Minister of Finances, asked me.

I will admit that I did not expect such a start. But since this is what happened I thought: The question is no accident. Therefore, I answered, not concealing my interest:

"You know, I haven't. But are there really such ministers?"

"I see them here... they come and ask for millions."

"They do this in our day of increasing economic levers?"

"Yes, in our day. One minister said to me that he dreams all the time at night about how to ask for these millions: "Help me, there is nothing to pay the worker's wages..."

"And what did you answer him?"

"I said that he must dream not in millions, but in billions of rubles, earned by his own branch..."

The fact is that, having lost their working capital, N. Vasilyev, minister of the USSR Ministry of Land Reclamation and Water Resources, and M. Busygin, minister of the Ministry of the Timber, Pulp and Paper, and Wood Processing Industry, on their word of honor for the last time (truly the last time?) requested sizable credits.

And in order to have a guarantee of their return, the finance ministry, as it should, required the ministries to work out appropriate measures. And when they received them, they exclaimed. The papers were replete with verbs: "Obligate, intensify, accelerate..." But behind them was not a single specific economic calculation. The papers were returned to be redone.

As the 27th Party Congress noted, the credit and finance system has insufficient influence on growth of production effectiveness. Losses of lagging ministries and enterprises are at times unjustifiably covered by those which are profitable. And how bitter it would be for, say, the Sumy machine builders, to know in advance that the fruits of their thoughtful and creative work will go to dry for a short time the tears of supplicant ministries.

The amounts of calculated (paid) credit increased incredibly due to interruptions in supply and violations of the working rhythm of factories and transport. Today this increase exceeds the increase in production volume almost 1.5 - 2 fold. Everyone owes and everyone is owed. And often, as the saying goes, the ends do not meet. This is a signal of trouble in the economic mechanism. Credit resources are more and more being drawn into payment for mismanagement.

Large scale use of credit payments has led to contradictory consequences. On the one hand, at first it truly facilitated the producer rapidly obtaining payment for products delivered in accordance with commitments and contracts. On the other hand, low-profit enterprises, the receivers of products, began to think less about the efficient use of their own working capital. Credit

payments, which were thought of as a shock absorber of financial disorder in the event of a temporary lack of money in the account of the payer, became practically a continuous source of funds, inveigled essentially into impermissible unplanned expenditures. PRAVDA has already written about this. What is the reason for the phenomenon?

First of all it is the uncomprehensive and one-sided implementation of the basic provisions of the economic mechanism. Many factory personnel who fight fervently for an endless expansion of credit payments, only mention financial norms in passing. But the establishment of economically justified long-term norms for balanced planning and distribution of material and monetary resources is the heart of improvements to the whole financial system.

The increased rate charged for overdue credit should be paid by the enterprise for that part of profit which remains at its disposal. Clearly, only under such a procedure will the factory take care to see that it always has surplus money for accounts with suppliers, and will resort to credit in extreme cases.

Under the old, but still widely existing procedure for income distribution, higher credit rates are taken not at all from the factory's share of profits. They are reflected in that part of profit which is allotted to the budget as surplus. The factory pays interest rates from "another" pocket, which it considers the state pocket.

A situation occurred, writes economist A. Savelyev to the editors, under which an enterprise acquired an additional financial source, but increased economic responsibility for its correct and intelligent use was not forthcoming. Many economic entities without particular thought began to involve both their own and borrowed funds in increasing reserves of excess, unused values.

Minkhimmash enterprises traveling the path of "self-financing" are also not rid of this. In the first quarter of this year above-norm reserves in the branch again increased by 42 million rubles. With what are these funds now being covered? Again with almost permanent "temporary" credits?

Gosbank has begun to limit credit payments in every way possible. But it is not only those who are remiss regarding their debts who suffer from this. Innocent suppliers also suffer. Credit sanctions have touched too many enterprises. This is an indication of the exacerbation of credit relations due to the slow introduction of normative planning methods and resource distribution.

Implementation of the normative method for profit formation and distribution according to the Sumy model it now receiving, so to speak, a "second breath." It is not to the advantage of an enterprise which is working under the new conditions to make constant use of loans, since excess interest payments on them "eat up" part of its profits. They may say that the new procedure for profit formation and for the establishment of stable, scientifically based norms is not a simple matter. It is possible only when an enterprise is ready and has acquired experience. Yes, all this is so. But, besides objective difficulties, there are also subjective ones: a lack of desire on the part of ministries and departments to fulfill these conditions. Why? Under the



normative methods flaws in planning, material and technical supply and credit become especially evident. And the opportunity for the ministries to command the profit which remains at the disposal of enterprises will be markedly diminished.

Yes, even now, during the course of the experiment, the practice of one-sided, incomplete implementation of innovations is having its effect. Those provisions which are advantageous to the enterprise and the ministry are first to be implemented. Only later are those implemented which provide an end economic result. Whether the ministries wish to introduce financial norms or not, without these methods of planning and funds distribution full cost accounting and self financing will remain but pretty words.

The existence of scientifically based, long term norms in Sumy means the existence also of an internal, conscious interest on the part of the collective that raw material, energy and financial resources and working time not be wasted. No system of such norms means that the economical use of funds must be supplemented by administration or other roundabout methods. But neither harsh strictness, nor fervent appeals will replace economic interests. But it is very simple to make a mess of things. Let us recall to what this led even such a strong collective as Uralkhimmash.

Formalistic cost accounting in enterprises leads to a situation in which the economic work which the financial organs carry out with them, the need for which is so emphasized, amounts to wheel-spinning and has no effect. Banking institutions are authorized to apply harsh sanctions against collectives which do not fulfill their plans for sales and savings, and which violate financial and contractual discipline. But how can sanctions be applied to an enterprise which has a long-term debt to the bank and to suppliers? Especially if it is experiencing financial difficulties through the "kindness" of a higher organ, which withdrew from the factory a large sum of working capital without taking into account its capabilities for making it up.

A difficult situation has arisen. In speaking in recent years about independence and expanding the rights of enterprises, we somehow began to be less concerned about improvement, or more accurately about the fundamental restructuring of the "technology" of centralized economic management. As before, it is developing along the lines of intensifying trivial tutelage of the lowest-level collective. At times the most necessary thing is forgotten -- the new principles of economic management corresponding to the stage of its development. And it would be better if this were leading the way, if only by a half-step.

Let us recall that Engels already noted that within the competence and authority of centralization must be everything "which is considered general, leaving, however, free that which concerns this or that personally." ("Sochineniya" [Works], Vol 41, p 325). And it is hardly wise that economic management centers today are more often concerned about "this or that," and leave long unattended those things which are fundamental. Being the embodiment of centralization in economic management, the finance and planning departments in recent years have not introduced any noticeable, serious

changes in the style of their work. On the other hand, they have produced heaps of "cosmetic" instructions addressed to the lower levels.

The labor collectives, although not without difficulty, are gradually shifting to economic management methods. Under these conditions, arbitrary planning and recidivism on the part of the "commanders" of the economy are particularly intolerable. Self-financing and cost accounting economic principles at the lowest level will develop all the more successfully, the more quickly branch headquarters and other economic departments also shift to economic management methods.

I believe that the "crying" ministers and the economic norms which are thus far inaccessible for many of them are phenomena of a single order, only different sides of the same coin. The Sumy workers and the Volga Automotive Plant workers, before taking the step to self-financing, devoted a great deal of time and effort to working out norms for all types of their activity. Without detailed internal cost accounting, which encompasses every production sale, there can be no true cost accounting at the branch level.

And there is no doubt that many enterprises, even of Minkhimmash, are not prepared for this. And the branch headquarters is also not entirely ready, having only a few days ago read through the last lecture explaining the basic principles of self-financing. Again a casual remark was made about economic norms. More accurately, it was conditional. Neither the branch, nor the enterprises yet have a completely worked out draft five-year plan.

But, talking about norms is not enough. They still must be developed, approved and introduced with thorough working knowledge. This today is the forward edge of truly urgent work, which the central economic departments must lead, along with the ministries and branch institutes.

Time is quickly flying by, and finances for the acceleration of social and economic development are not yet being entirely provided. More accurately, they are subject only to those who have restructured. And this means that finances must be earned. Their fate is in the hands of the labor collectives.

#### Interview of USSR Finance Minister

Moscow SOTSIALISTICHESKAYA INDUSTRIYA in Russian 27 Jun 86 pp 1-2

[Interview of B. Gostev, USSR Minister of Finances: "Finances Under the New Conditions"]

[Text] The 27th CPSU Congress indicated the need for a radical reform of the economic mechanism. One of its most important directions is restructuring the financial system. The editor in chief of SOTSIALISTICHESKAYA INDUSTRIYA, A. Baranov, discusses planned changes in the role of finances in economic life with B. Gostev, USSR Minister of Finances.

[Question] At the 27th CPSU Congress a reduction in the role of finances in economic life and in the struggle to improve economic effectiveness was noted. The task of implementing changes in the finance and credit mechanisms was

posed. What is the essence of these changes, Boris Ivanovich?

[Answer] The changes shall effect the entire finance and credit mechanism. Their essence, in brief, is to create the most favorable financial conditions for the consistent transition of associations and enterprises to full cost accounting. And the first step is to eliminate tutelage in the financial management of enterprises. They must have real rights to spend the money which they have earned independently and responsibly, in the interests of their work.

The second direction is creation of long-term, stable norms for distribution of income between economic entities and the budget and a new procedure for establishing the monetary funds of associations and enterprises. The most important tasks here are to strengthen the anti-expenditure thrust of the finance and credit mechanism and its influence on production effectiveness.

These issues, I note, have always been given close attention by USSR Minfin [Ministry of Finance]. Ways of solving many of them were tested during economic experiments in industry and in other branches of the economy. Today, taking into account the experience which has been acquired, we are reexamining approaches to them.

[Question] The complicated nature of relations between enterprises and ministries and the state budget is a difficult question. Norms for distribution of profits, first of all, are short term, annual. Second, they are individual for each enterprise and association. Third, they are independent of the dynamic of the indices of economic activity produced from the financial plan. Thereby they do not encourage enterprise collectives to disclose reserves or work out intense plans, and they retard the growth of production effectiveness. How does USSR Minfin intend to increase the role of financial norms as levers to intensify production and accelerate its development? How do you, Boris Ivanovich, react to suggestions about the introduction of a fixed tax on the profits of enterprises and associations?

[Answer] It is completely obvious that the relations between enterprises and ministries and the state budget must be placed on a firm, long-term basis. A mechanism by which enterprises would pay into the budget a share of their profits which is firmly established for the five-year plan seems most acceptable. Such an approach maintains the interests of collectives in increasing profits, since the larger their absolute sum, the more remains at their disposal.

But, it must be acknowledged that the introduction of the normative method poses a number of very complex issues, both before USSR Minfin, and before branch ministries and their enterprises. It is one thing when a norm is established for a year and is derived from the plan. The amount of profit has already been determined and the size of planned expenditures is known. It is another matter when it is necessary to establish norms for five years. And, note that this is before compilation of the draft five year plan begins. Both the amount of profit and the size of planned expenditures are unknown. What is there to orient on? Again on the notorious "base"?

There is also another difficulty. USSR Minfin will coordinate norms overall for the ministry, and it, in turn, will issue them to the enterprises. Must the norms be identical for all, or should specific features of the work of each be taken into account? Under self-financing conditions this question is very acute. Under a uniform averaged norm one enterprise will be at an advantage, and another will be confronted by inadequate financial resources.

Last year we began a search for new approaches. Norms were established for the five-year plan in percentages of total profits for the Volga Automotive Factory and the Sumy Scientific Production Machine Building Association imeni M. V. Frunze, taking their specific situations into account. Beginning next year long-term stable norms of allocations from calculated profits to the budget and the ministries will be established for all enterprises in light industry. In the future this procedure will be adopted for all branches. The most important aspect of this is to turn these norms into instruments of financial planning, which encourage collectives to approve intense plans back at the stage of their development.

As for proposals for a fixed tax on enterprise profits, this seems to be unsuccessful. The very concept of "tax" implies differences in forms of ownership. And it would be strange if the government taxed government enterprises.

[Question] You noted that one of the priority tasks of USSR Minfin is to free enterprises and associations from trivial tutelage and give them the opportunity independently and responsibly to use funds which remain after they settle accounts with the state budget. So far these rights are being limited, including by financial organs. In particular, there are cases when they confiscate funds accumulated in enterprises.

[Answer] First let us clarify what funds we are talking about. Enterprises must settle accounts not only with the budget, but also with the banks, and also make allocations to central funds and branch reserves. Allocations to these funds and reserves also must be placed on a normative basis, in order to prevent arbitrary confiscation of profits from collectives which are working well to cover the financial breakdown of lagging collectives.

The position of USSR Minfin is unambiguous. There can be no full cost accounting without the full right of enterprises to dispose independently of earned money. We consider it necessary to expand substantially the purposes, for example, of the production development fund. The enterprises must themselves determine how much money and where to direct it, for the development of new equipment or the reconstruction of production; for an increase in working capital or for the creation of computer centers; for rationalization and inventions, or for cadre retraining. And, of course, under conditions of full cost accounting there can be no talk about some confiscation of earned development funds from enterprises. In none of the instructions approved with the participation of USSR Minfin in recent years have there been any loop holes in this regard. The same is true of the incentive funds. Enterprises must spend earned monies themselves, without guidance instructions.

[Question] The hydraulic engineers proposed that 10 percent of the savings obtained from cooperation in the "worker's relay race" be transferred to an incentive for their partners. But these proposals were rejected. What is the position of USSR Minfin on this question? Is it not time to work out a more effective system of material incentives for labor collectives and their subcontractors for economization of all types of resources?

[Answer] Here it is necessary to come to an understanding right away about shifting what part of the savings we are talking about? If some measure, including within the framework of a "worker's relay race," is effective, it should be expressed in an increase in profits; either through savings of materials, or labor savings, or through ahead-of-schedule development of capacities. Part of this savings must be paid to the budget and part will remain with the collective. And it has the right to dispose only of that part. What can the hydraulic engineers share with the subcontractors? Monies of the development fund? Hardly. Monies for residential construction? Doubtfully. Apparently, only part of the funds intended to augment the material incentive fund. If that was the collective's decision, USSR Minfin would raise no objections.

[Question] The June CPSU Central Committee plenum and USSR Supreme Soviet Session posed the task of mastering an anti-expenditure mechanism. The role of the financial organs in this work is exceptionally great. But at times it is somehow understood wrongly. Frequently finance workers in chasing after savings of kopecks force economic entities to waste rubles. Obviously, enterprise on the part of the managers of enterprises and associations is senseless without enterprise on the part of finance organ workers. Why do you finance people not encourage the initiative of economic managers and give them incentives to take bold actions?

[Answer] Neither USSR Minfin, nor its employees have any personal resources which they can spend at their own discretion. We do not have the right on our own authority to change the direction of even a single ruble from the state budget, and cannot take it from one group and transfer it to another. Our task is to mobilize the income in the state budget and control its use in accordance with the Law on the USSR State Budget. All associations and enterprises must take part in its establishment, as was emphasized in the USSR Supreme Soviet Session. And in industry almost one in eight enterprises is unprofitable. The overall amount of their subsidies in the past year exceeded 6 billion rubles. This was due mainly to large unproductive expenditures and above-norm reserves. Can finance employees really look at this with indifference? They cannot, and they are obligated to demand that economic managers work as they should. And finance organs will be able to encourage them to be enterprising through the system of normative profit distribution. This, in and of itself, demands initiative in economic management.

Cost accounting and economic independence presume not only the right to spend money at one's own discretion, but to spend it efficiently and achieve the greatest return from each ruble, and to reduce unproductive expenditures. If economic managers do not fulfill these state requirements they must answer economically to society. And responsibility begins with control. It has been and remains with the organs of USSR Minfin. This is their main task. Note

that they control not the purposes for which enterprises spend earned money, this is their business, but they control how this money is spent, how intelligently and with what return.

[Question] The role of an active financial policy is especially significant in accelerating scientific and technological progress. With what financial incentives can people who energetically introduce the achievements of science and technology be encouraged, and can influence be brought to bear on those who, on various pretexts, avoid this work?

[Answer] The range of these incentives is broad, but the application of many of them is not in the sphere of competence of financial organs. They can influence the acceleration of scientific and technological progress through budgetary financing of developments and through introducing the achievements of science and technology. Minfin can influence the technical level of production and products through a system of progressive normative calculations with the budget. For example, if an economic manager does not introduce new equipment to reduce the expenditure of material and labor resources, it is doubtful that he can seriously hope for large increases in the funds which remain with the enterprise. Collectives have a financial base for development and we could help them use it most effectively and prevent the squandering of earned money.

[Question] One of the incentives for the acceleration of technical retooling of production is payment for resources used. How effective will this financial lever be, if it is considered that a substantial number of enterprises are now freed from making payment for funds, due to the low profitability of production? Moreover, excessive reserves of material have increased substantially in many enterprises. Exchange of these surpluses is difficult. Why not give them the right to sell freely surpluses and products above the planned number, and assess earnings with some kind of turnover tax or tax on above-plan profits? How do you react to these suggestions?

[Answer] Strengthening the anti-expenditure nature of the financial mechanism presumes the inevitability of financial sanctions for inefficient use of all types of resources. I must say directly that so far finance personnel have done far from everything required in this respect. It is true that a substantial number of enterprises are freed from payment for funds and payment for above-norm residual commodity stocks not credited by the bank is insignificant. There are no effective economic levers which would force enterprises to fulfill the targets for placing material resources in economic exchange. Financial instruments also have little influence on efficient use of the work force.

Currently USSR Minfin is readying proposals which will correct these shortcomings. It is intended to collect payment for production funds according to rates which are differentiated and stable throughout the five-year plan. Payment for above-norm residual commodity stocks and uninstalled equipment is intended to be collected in sharply increased, for example, doubled amounts. Of course, enterprises must be given broader rights in the sale of surpluses located in their warehouses. But we do not see any need for a special tax on the earnings from their sale. It may complicate the

financial mechanism. You see, additional profit would simply increase the overall amount of profit which is distributed between the collective and the budget according to the norms. This is entirely sufficient.

[Question] The readers of SOTSIALISTICHESKAYA INDUSTRIYA have long spoken out against formalism in reducing the size of the administrative and managerial apparatus of enterprises and associations. Maximum allocations for maintaining this apparatus are being reduced each year. This hits economic services and worsens the quality of management. Our readers suggest, first, granting enterprise and association managers themselves the right to establish their administrative structure depending on the needs of production and within the limits of the wage fund. Second, they suggest that the division of the managerial apparatus of enterprises into engineer-technical and administrative-managerial employees be eliminated.

[Answer] I would like to remind you that the 27th CPSU Congress established a clear task of simplifying and reducing the cost of the administrative apparatus. It is extremely important to solve this task. The fact is that for many years the number of managers has been growing more quickly than that of persons directly engaged in production. Add to this also the acute question of the labor shortage. Why, as readers of the newspaper write, does reducing the administrative and managerial apparatus "hit economic services" and "worsen the quality of management"? I believe this is a matter for the ministries and departments. Targets for reducing managerial personnel are set for ministries overall, and at a relatively low level. However, they transfer their main burden to their subordinate enterprises, leaving virtually unchanged the size of the apparatus of branch administrative organs. Distribute correctly the targets within the ministerial apparatus and among enterprises and the quality of managerial activity will not decline.

Nevertheless, I can agree with your readers. Under the new conditions we must not use the same old approach to the problem of regulating the number and costs of maintaining the administrative apparatus in enterprises. And a few days ago a decision was made to discontinue separate planning for engineering and technical workers and white collar employees, and to combine them into the single category of white collar employees. Their wage fund will be set according to norms which are in percentages of the overall enterprise wage fund. Within the limits of this amount enterprise managers may independently approve this manning table for categories of white collar employees, and determine their number and the nature of the managerial functions which they perform.

[Question] In the budgets of local soviets a known gap has formed between the norms and the actual division of funds for the development of the social infrastructure. In order to make up for this gap, the practice of having enterprises located on a given territory pay a share for the development of the city economy is widespread. In this regard it happens that due to a lack of funds some managers actually violate financial and fund discipline. Is it not time to legislate financial relations between industrial enterprises and local soviets through the use, let us say, of a local tax? Why not interest local soviets economically in developing the production of consumer goods, and

give them, for example, the right to dispose of part of the earnings from the sale of, for example, souvenirs, products of local industry, and economic goods which are manufactured in the given city?

[Answer] First of all I will note that "levying a tax" on enterprises is nothing other than violating the rights of labor collectives. Moreover, the difficulties which local soviets have in developing the social infrastructure are frequently not caused by a lack of financial resources. Most often they have no limit on contract work or they cannot "barter" existing resources. Apropos of this, from year to year local budgets contain large amounts of unused funds -- approximately three billion rubles.

However, there is a problem here. In order to find a way to solve it, beginning last year in a number of republics and oblasts an experiment has been carried out, in accordance with which enterprises (regardless of their subordination) assigned part of their profits to the income of local budgets. It is necessary to state directly that the results of the experiment vary. There were cases when enterprises substantially underfulfilled the plan for profits, and local budgets were shorted substantial sums. Moreover, local soviets turned out to be in different positions. Those on the territory of which no major enterprises were located received miserly sums.

At present the provisions of this experiment are being refined exactly as proposed by your paper. Allocations into the budgets of local soviets are being structured so as to interest them, in the first place, in increasing the output of consumer goods. The higher the income from the sale of these goods, the higher also are allocations into the local budget. A decision has already been made that beginning next year light industry enterprises will allot part of their profits to local budgets, according to a planned norm.

[Question] And one final question, Boris Ivanovich. Some of our readers assert that financial organs continue today to be guided by normative documents which, frankly speaking, are not the most current. What and when does USSR Minfin intend to undertake in order to bring its instructions into accord with the new managerial conditions?

[Answer] Indisputably there are such instances. Attention was paid to this at the June Central Committee plenum. At the same time, instructions do not arise in and of themselves. They are based on existing statutes. The majority of economic activity of associations and enterprises is regulated today by instructions approved since 1980. I will also note that on the threshold of the 12th Five-Year Plan USSR Minfin reworked those instructions within its competence on payments from profits, budget estimates, the formation of enterprise financial reserves and the consumer goods fund. Instructions regulating the procedure for the establishment and use of economic incentive funds were also reworked, jointly with USSR Gosplan and VTsSTS [All-Union Central Trade-Union Council]. All were coordinated with the appropriate ministries. This work is continuing.

9069

CSO: 1820/172



## INVESTMENT, PRICES, BUDGET AND FINANCE

### RADICAL RESTRUCTURING OF OVERALL PRICE MECHANISM PROPOSED

Moscow PLANOVOYE KHOZYAYSTVO in Russian No 5, May 86 59-65

[Article by A. Komin, doctor of economic sciences: "Price Formation Under the Conditions of a Planned Economy"]

[Text] Price formation plays an important role in centralized management of the economy. With the help of prices, results are determined on the operation of individual enterprises, associations and other economic organizations and very important value proportions are created at the statewide level: distribution of national income and financial capital among sectors, maintenance of a correspondence between circulation of monetary capital and material and physical resources and so on. Under the conditions of a planned economy, price formation cannot be outside of state control.

It was pointed out at the 27th CPSU Congress that an "prices are called upon to be an active instrument of economic and social policy. Planned restructuring of the price system must be carried out as a single whole in the interest of setting up effective cost accounting and in conformity with the tasks of boosting the population's real income. Prices should have great flexibility and have their level tied in not only to costs but also to the consumer property of goods, effectiveness of manufactured products and the extent of balancing of the produced product to social needs and demand of the population. It is planned to use more widely limit and contract prices."(1)

This condensed formulation contains a wide-ranging program for the restructuring of the system of prices and rates in the national economy and improvement of all work relating to price formation in conformity with the new requirements of economic management. Consequently, it will be necessary to rethink deeply the state of affairs in this sphere and to approach in a new way and more confidently the solution of pressing problems. But this will require a radical restructuring of price formation as well as of the entire economic mechanism.

At the congress, a question was raised for the first time regarding the need to improve the entire system of prices and rates in the national economy as a single integrated complex. Of late, active work on improving price formation has been conducted only in two sectors--industry and agriculture. Serious defects and contradictions have arisen in the price system. In many

cases, they have not corresponded to socially necessary expenditures and have not ensured the normal reproduction process.

A system of prices and rates is called upon to create conditions for the introduction of new principles of management. Work on their improvement must be conducted on the basis of a consistent reflection in prices and rates of social necessary expenditures and conditions of reproduction while taking into account the special features of each sector and the introduction of full cost accounting.

Drawing prices closer to socially necessary expenditures is a requirement of the law of value for whose achievement the planning system of management has great advantages compared to market economics.

In studies on problems of price formation, these questions were considered from general theoretical positions. The principal attention was paid to validation of deviation of the price level from socially necessary expenditures, which were evaluated onesidedly as advantages of our planning system. Developments proceeded more along the path of "justification" and explanation of the existing practice and price levels in these or those sectors. For example, this was most graphically manifested in regard to purchase prices for agricultural products. All kinds of subjective accretions also occurred in the sphere of wholesale prices. No methodology of price formation was developed in such important sectors as transport, communications, construction and the nonproduction sphere. Consequently, the creation of a concept of prices approximating necessary expenditures requires a critical approach to the price system and systematic implementation of validation of sectoral price levels and their establishment for individual types of products. Analysis of the profitability of individual factors is shown by the fact that in 1984 profitability in industry (with respect to production capital) amounted to 12.1 percent, in railroad transport to 5.5 percent, in river transport to 6.4 percent, in motor transport to 14 percent and in communications 17.4 percent. Such a difference in profitability for sectors cannot be made valid by any reasons.

Recently, elaborations of economic validation of price levels (including expenditures and profitability) for industrial products have been undergoing major development. Price formation in this sector had added to it new categories like outlays on geological prospecting work and rent payments. Rates of payment for the number of trees cut down and wage-payment norms have repeatedly been raised. Production cost and prices broadly include expenditures connected with reproduction of natural resources, conservation of the environment, development of new equipment and so forth. For the first time in industry, profitability was based not only from the standpoint of cost-accounting positions but also from the viewpoint of a necessary national-economic norm of net income.

Net income is used for the needs of reproduction, maintenance of the nonproduction sphere, management and defense. It is formed on the basis of such sources as turnover tax, rent deductions and so forth. At the same time, the role of profit is growing as a basic source of net income. For example, whereas its relative share in monetary accumulations of the national economy

in 1960 amounted to 39 percent, by 1984 it was already 55 percent. The required size of profit in validation of wholesale prices should specifically be considered while taking this factor into account.

Some economists propose to include under profit all expenditures connected with the cost-accounting activity of enterprises, that is, the creation of economic stimulation funds, growth of a norm for working capital, capital investment and expenditures on general state needs. However, profit size needs to be determined while taking into account other forms of net income. For example, deductions into the wage fund have their concrete economic content example, reimbursement of expenditures for social insurance, the turnover tax and rent payments can be used for any state needs. The ignoring of this consideration can lead, on the one hand, to an unjustified hiking of profit. On the other hand, the size of profit in prices for sectors of the national economy should be in accordance with the principle of self-repayment, that is, to the reimbursement of all costs connected with expanded reproduction. This is its minimum size. Such an approach fully is in accord with the principle of prices approximating socially needed expenditures.

With the last two wholesale-price revisions in industry, profit was set in the amount of 12-15 percent, which was in accord with the ratio of net income (with the exception of the turnover tax and deductions into the wage fund) to production capital for the national economy as a whole and its cost-accounting principles. Specifically, profit size was determined while taking into account 6 percent of pay for funds and deductions for the formation of economic stimulation funds, adding to revolving capital, reimbursement of planned losses from housing and municipal services and net surplus. Analysis showed that profit size, although it was not substantiated, was in accord with the principle of self-repayment. Profit obtained in industry not only has provided most enterprises with the necessary cost-accounting conditions but also has reimbursed capital investment. For example, in 1984 its amount in industry was 96.3 billion rubles and capital investment was 61.9 billion rubles, or 73 percent of profit.

The level of profitability and profit in sectors of material production should be carefully and systematically analyzed from positions of full reproduction and self-repayment in each sector and subsector. With profitability approaching specific prices, it becomes necessary ever more often to take into account factors of price-level correlation for mutually replaceable and similar kinds of products, quality, consumer properties, shortage and so on. But planned reproduction and self-repayment must become determinative.

At the present time, AvtoVAZ and Sumy Machine-Building Scientific-Production Association imeni M.V. Frunze are operating on the principle of self-repayment. The production development fund, formed with deductions from profit and the entire sum of amortization deductions for restoration of fixed capital, must provide associations full compensation for expenditures connected with reequipment and modernization. In this way not only rights are expanded for enterprises in economic independence but their responsibility is increased for the technical level of production. One of the essential positions in cost-accounting activity of associations is their interrelations with the state budget. Firm norms of profit deductions into the state budget

are established for enterprises, while the remaining portion, left at the disposition of the enterprises, will serve as the basis for formation of economic stimulation funds.

The practical introduction of full cost accounting is unthinkable without a corresponding restructuring in the price-formation system of prices and rates, which will require a certain amount of time. At the same time, it should not be stretched out, since the restructuring of the entire economic mechanism largely depends on this.

An important role in setting prices and rates for new types of products and services is being given to price-formation organs, ministries and departments, enterprises and organizations. The stimulating role of price in technical progress and raising the quality of production output depend to a significant degree on the level of implementation of this work. Reference is made to the fact that in setting prices a broader range of economic factors influencing their level was taken into consideration. In the final analysis, price should be not simply a measurer of expenditures (an opinion that has become widely prevalent in the economic literature) but a reliable measurer of effectiveness of expenditures and results of economic activity as was pointed out at the 27th CPSU Congress.

In speeches of delegates at the congress, deficiencies in price formation were subjected to sharp criticism. They boiled down to the fact that existing prices do not always take into account the economic interests of producers and consumers and are inadequately aimed at stimulating economy of material and manpower resources and boosting their efficiency.

When setting prices for products of production and technical designation, price-formation organs proceed primarily from technico-economic parameters and consumer properties of new products and do not take into consideration the economic effect from production and use of new equipment. In a number of cases, calculations of economic effectiveness determined at the new-equipment production stage have not proved to be correct. This is due to the fact that new production is turned out with deviations from approved technical conditions or the conditions and technology of their operation are violated. Some economists propose to establish markups to prices for effectiveness not according to the calculated economic effect but on the basis of the actual one. But such proposals in our view do not take into account the real possibilities of introduction of new equipment inasmuch as the actual effect can be disclosed (determined) at best 2 years following production of the new product and for large machines and equipment with an extended cycle of full operation after 4.5 or more years. Moreover, such an approach gives rise to mistrust of technical conditions where the most important parameters of the new product are approved and absence of responsibility on the part of the buyer are approved. But the question is to strengthen the role of the user in the process of creating new equipment--from the issue of the technical assignment to the introduction of the new product into production.

In this connection, a proper and effective measure is increasing the responsibility of the producer for the product corresponding to the requirements of state standards and technical conditions. Otherwise it is

impossible to solve the problem of raising quality. Technical-level indicators set in normative documentation have to be realistic. And here much depends on the user who accepts a product with defects and improper technical conditions. Rights and sanctions of material pressure on suppliers for poor-quality products should be more widely applied.

In the economic literature, much attention is devoted to the problem of efficiency of use of new equipment. Frequently, expensive new equipment is not fully used and even remains idle, which in place of gain results in overexpenditures. In such situations, the producer of the equipment must not be indifferent. We think that he should be given not only the right but also the responsibility to at least exercise selective control over the use of new equipment and technology, especially in the first stages of introduction. Mutual control and demandingness are an indispensable condition for the creation of new economic relationships between producer and user. This in turn makes it possible to avoid errors in price setting.

Improvement of work in price formation should be based on a comprehensive introduction of principles and proper methods of antiexpenditure economics. Direction of attention is required on major consideration of consumer properties, product quality and production efficiency. Price formation should be based on those principles which permit product producers and users to determine in advance the price level for a planned type of new equipment. This accordingly will promote stimulation of use of the new product with the smallest outlays. For example, the practice of holding on to prices for new kinds of products on the level of used ones if they in terms of quality and parameters are not inferior to those being replaced and have a lower production cost has confirmed that design organizations and enterprises have to started to try to reduce the price reduction of products without being afraid of reducing the cost size of production. In putting out a product at lower production cost which is not inferior in its parameters and quality to a replaced product, prices for the product over the course of a 5-year plan period should remain at the level of those of the replaced product and with their improvement rewarding increases can be established for them.

Unfortunately, such an approach so far is not shared by everybody since with a significant reduction in production cost, high profitability is formed for the producer. But why be afraid of high profitability if it is the result of higher production efficiency. And, of rourse, this result should be reflected in regard to the one who created it. Accounting in prices of effectiveness of expenditures and production serves in this sense as a stimulating role for price formation. Stimulation of production output with the smallest production cost by economy of material and labor outlays is a most important direction of improving price formation and the creation of conditions for the introduction of antiexpenditure methods of management. In this connection, strengthening the role of limit prices set at the planning stage is important. Their level is determined on the basis of an appraisal of possible outlays on production output, its technico-economic parameters and quality. Limit prices make it possible for the producer and user to determine in advance the practicability of forthcoming expenditures, which is of basic importance to the planning of economic operation over the long term. For this reason, the practice of setting them should be developed in every possible way.

An important direction for improvement of price formation is the introduction of normative parametric methods of setting prices and creating the appropriate price lists, making it possible to simplify the price-formation procedure, to decentralize setting of prices and to lend them the necessary efficacy and flexibility. Such price lists are to be found in almost all sectors of industry, and it is necessary to improve and widely introduce them. At the same time, normative methods of price formation may where necessary be combined with the use of contract prices.

Contract prices at the present time are set for products of production and technical designation according to the principle of temporary prices for newly developed types of manufactured products as well as for custom-made products. But defects in setting them (especially for custom-made products) results in boosting of prices for special lines, building-block machines, rolling equipment and so on. Sometimes user enterprises do not come into conflict with suppliers and agree to hiked prices if only to obtain the equipment. The predominance of the interests of the supplier over those of the user is a common problem and it demands solution in the course of restructuring and improving the economic mechanism. For this reason measures in the field of price formation need to be jointly implemented with measures for improvement of the entire economic mechanism by strengthening the economic accountability of producers and users over the results of their economic activity.

Contract prices need to be widely used in light industry, especially when setting wholesale and retail prices for new (fashionable) consumer goods. Big rights in setting of prices are granted to Agroprom enterprises and organizations. All this will ensure more flexible and effective setting of them and make it possible to better take into consideration the population's needs and demand. At the same time, a big responsibility is placed on price-formation organs, ministries and departments for methodological support of this work and control over the correctness of price setting.

With expansion of enterprises' economic independence and growth of the role of economic management methods, high demands are being made on validity of prices.

Recently, cost indicators (especially gross and commodity production) have been subjected to sharp criticism. Some economists propose in general to renounce them. In our view, these indicators cannot be evaluative, but the growth rate of production volume on a national-economic scale, growth of national income, distribution of the social product and the most important proportions are compared on their basis. In other words, they are necessary as generalizing indicators, and practice has confirmed their acceptability for economic analysis in planning and study of public production's economic processes.

The inapplicability of cost indicators to characterization of production volume at the enterprise level is connected to the unidentical structure of prices for different kinds of products. Consequently, the size of commodity and sold output per ruble of wages for its different kinds is always different and depends on the structure and assortment of produced output. For this end,

the indicator of normative net production was introduced, but it was criticized.

The problem of differing profitability of prices has objective causes. When setting prices, in addition to costs, quality, technical level and other consumer properties of production, it is also necessary to take into account the output of effective products. But differing profitability is also connected with such factors as unidentical rates of reduction of cost of individual types of products, the level of expenditures on the production of one and the same product at different enterprises. Therefore to think that it is possible to create for each enterprise a system of equally favorable prices means to take an unrealistic route. In addition, such prices lose any economic meaning since they will not be fulfilling a stimulating role. Here it is important to disclose something else: along what direction is the tendency of differing profitability in the price system directed--toward stimulation of technical progress and quality or the the reverse.

All value indicators are formed on the basis of prices of differing profitability and differing gain. They most fully reflect the social economic assessment of each product from the point of view not only of expenditures but also of its consumer properties. At the same time, their number should be limited in plan indicators conveyed by the enterprise in order to eliminate duplication and contradictions in them. For example, at the present time, in certain machine-building ministries production volume is being evaluated on the basis of gross production and per-ruble expenditures on the basis of commodity production. With such a difference of meaning, it is difficult to secure their coordination. The problem of a large number of indicators conveyed to enterprises, becomes most acute in connection with the transition to the new conditions of management. In addition to physical indicators of production volume, targets for reducing outlay norms of labor, materials, fuel and so forth are conveyed to enterprises, which is reflected in production cost, profitability and labor productivity. Each year targets are set for enterprises to reduce norms of expenditure of material resources, outlays per ruble of commodity production and effectiveness from introduction of scientific and technical measures, while funds for them are already conveyed while taking account of reduction targets and so on. And in all cases, it is necessary to take into account the assigned reduction of norms.

Attention should be directed to the selection of indicators which would in the greatest possible degree be in accord with the principles of evaluating the operation of enterprises on the basis of end results. In our opinion, they should first of all include indicators of net production and profit since they are much more simple in application.

Some economists propose using profit, as it represents the result of economic activity and is directly connected to the indicator of net production. Others consider as a defect of this indicator the fact that profit is influenced not only by production costs but also by structural changes in assortment and products list. But we do not see anything bad if enterprises will strive for an assortment that is more beneficial and effective from the point of view of employment of net production and profit. With the help of profit, it will be possible to determine the inexpediency of putting out these or those products

given the condition that establishment of profitability will be accompanied by the output of both especially fashionable and also cheap goods of everyday demand.

While speaking of net production and profit as the more preferable of cost indicators, we do not elevate them to the rank of principal ones. It is possible to evaluate the operation of enterprises only by a complex of indicators among which the indicator of delivery-plan fulfillment occupies a determinative place. In certain production operations, physical indicators may also be used. In a word, a differentiated approach is required, taking into consideration the specific character of individual sectors.

An important condition in improvement of the economic mechanism is stability of plan targets of enterprises for the 5-year period. Only with such an approach are expansion of economic independence and rights of enterprises and further improvement of centralized production planning possible.

In plan indicators, stable norms regulating the operation of enterprises are becoming ever more important (distribution of profit, formation of economic-stimulation and wage funds and so on). Their stability is attained only with stability of prices which have to be revised once every 5-year period. The revision and introduction of new wholesale prices has to be tied in to the elaboration of 5-year plans and is done if one proceeds from stability of plan indicators and norms prior to the development of the 5-year plan so that it is compiled while taking the new prices into consideration. The stability of plan norms in its turn contributes to expansion of the economic independence of enterprises.

At the present time, wholesale prices introduced in 1982 are operating in industry. Correctives were partially introduced in them in 1985. On the basis of such prices, the plan of USSR social and economic development for 1986-1990 is being worked out. On the whole they correspond to the economy's developmental requirements at the present stage. But toward the end of the 12th Five-Year Plan many prices will be obsolete, and for this reason, it is necessary to prepare now for their revision. Accounting of prices in plans of ministries, departments, enterprises and organizations contributes complexity to this work. The methodology of recalculating old prices of plans into new ones, their balancing at all levels is a laborious process. For this reason, together with preparations for the revision of prices one should begin with developing a simple method of introducing new prices and recalculating plan indicators in this connection.

In work relating to improvement of price formation, it is important to take into consideration the entire diversity of economic factors while keeping in mind that each price serves the interests of economic development not only for the current but also for the long-term plan.



#### FOOTNOTE

1. Gorbachev, M.S., "Politicheskiy doklad Tsentralnogo Komiteta KPSS XXVII syezdy Kommunisticheskoy partii Sovetskogo Soyuza [Political Report of the CPSU Central Committee to the 27th Congress of the Communist Party of the Soviet Union]. Moscow, Politizdat, 1986, p 44.

7697

CSO: 1820/159

## INDUSTRIAL DEVELOPMENT AND PERFORMANCE

### TEKHPROMFINPLAN USEFULNESS UNDER CURRENT CONDITIONS WEIGHED

Moscow PLANOVOYE KHOZYAYSTVO in Russian No 6, Jun 86 pp 73-79

/Article by Candidate of Economic Sciences Ye. Prigozhin: "The Technical, Industrial, and Financial Plan of Enterprises"<sup>7</sup>

/Text<sup>7</sup> It was noted in the Central Committee's political report to the 27th CPSU Congress that: "In the final account, everything we are doing to improve management and planning, to rebuild organizational structures, is directed at creating conditions for the effective work of the basic link in the economic system -- the associations and the enterprises". (Footnote 1) (Gorbachev, M.S., "Political Report of the CPSU Central Committee to the 27th Congress of the Communist Party of the Soviet Union", Moscow, Politizdat publishing house, 1986, p 44.) The complex of tasks aimed at improving economic management envisages a substantial broadening of the independence of enterprises, an increase in their responsibility for final results, and a transition to full economic accountability, self-reimbursement and self-financing.

Fulfillment of the tasks which have been set is inseparably tied, in particular, to planning at the enterprises, to ensuring higher quality engineering and economic justification of all sections of the five-year and annual technical, industrial and financial plans [tekhpromfinplans]. In these plans, all aspects of the production, technical, organizational and social development of enterprises are mutually interrelated. The pressing nature of the problem is intensified by the fact that, in recent years in certain industrial sectors, there has been a perceptible tendency toward a reduction in the role of complex plans. This is manifested, for example, in replacement of tekhpromfinplans by so-called advance plans, which are put forward with limited calculations of approved indicators and without coordinating them with organizational and technical measures on the normative level. One reason for such underestimation of the role of the tekhpromfinplans, in our opinion, is past instability in approved indicators, their frequent correction, which has led to nonproduction labor expenditures by skilled management apparatus workers.

Another reason is linked to the unjustified overcomplication in the standard structure of sections, forms, and ciphers and to the absence of up-to-date methodological instructions on how they are formulated and how they relate to each other. The sections of the annual techpromfinplans duplicate the structure of the five-year plans.

The question arises whether enterprise tekhpromfinplans are necessary and what they should be like. If we proceed from the premise that they are the most important form of intra-production planning, then it is obviously expedient to develop these plans. Without tekhpromfinplans, it is not possible to organize the aggregate activity of all the services of enterprise subdivisions, to realize intra-production reserves, and to achieve high final results.

The tekhpromfinplan of a modern enterprise is called upon to take into account the special characteristics of the present economic situation, changes in technical policy, and the specific characteristics of the enterprises themselves. The basic directions of the economic and social development of the USSR during 1986-1990 and in the period to the year 2000 are distinguished by the newness and scale of tasks connected with developing the economics and management of production. They demand an expanded conception of a changeover to a dynamic, highly effective economic system and the creation of an improved economic mechanism which is capable of activating the interest of labor collectives in raising the effectiveness of production.

At modern enterprises, technical facilities are being expanded, the skill levels of workers are being raised, cooperative relationships are growing more complex, and prospects are opening up to demonstrate management independence and enterprise. Taking these and other changes into account, planning categories and methods are being redesigned. No other link in the management system has been assigned such a variety of activities, such multiplicity in planning functions, ties and relationships, as has the modern enterprise.

Among questions connected with improving tekhpromfinplans, an important place is being assigned to rationalizing their structure, the sections they include, and categories they cover. (Footnote 2) (The standard methods and standard forms of USSR Gosplan lie at the basis of all sectoral methodological indicators.) But it often happens that the section on "Norms and Standards" is not filled out in the annual and five-year tekhpromfinplans of most enterprises. This is considered inexpedient, as this section and certain other sections transform the tekhpromfinplans into a bearer of extensive normative and informational data. Computer information centers have been set up at modern enterprises, where all normative information is stored and processed. In addition, every service with its own standards has card indexes corresponding to plant classifiers. All changes in norms and standards are registered in a timely manner in the computer information centers and card files. The annual tekhpromfinplans are developed a half a year before the start of the plan period, based only on existing norms and standards and on draft technical and organizational development plans containing tentative calculations of their economic effectiveness. Such a system does not permit reliable determination of long-range norms.

The section of "Material and Technical Supply" is also not being completed. The reason lies in the fact that it does not have linking functions and does not interface with production efficiency, or even with the prime cost of production, where individualized, specified norms are applied. Enlarged, so-called composite norms are utilized in this section, grouped by types of raw materials, materials, and intermediate products, and requirements for them are determined. For this reason, the indicators of the section are limited to the function of planning material and technical supply. We think that it is inexpedient to include a large amount of data in this section solely for the sake of review.

There is also no basis for including the sections on "Social Development" and "Environmental Protection" in annual tekhpromfinplans.

Certain planning categories also need to be made more precise. For example, in the section on "Production and the Sale of Output", one of the categories to be calculated is changes in left-over finished output at the beginning and at the end of the year, expressed in real and value terms. But how can an enterprise predict surpluses in manufactured products in real terms at the end of the year if the production program is formulated on the basis of contracted delivery obligations? It is true that the Statute on Product Deliveries allows certain orders to be filled outside the limits of the fiscal year, but it nevertheless does not seem possible to determine in a timely way a list of products which will left over at the end of the year. Usually in these cases the formula for the commodity balance expressed in value terms is used.

Such categories as "Improvement of Management and Planning" and "Freeing of Workers and Employees", which are close to the five-year tekhpromfinlan as well, are also not mutually connected within the sections.

In the existing structure of tekhpromfinplans there is no mutual relationship between indicators for planning growth in an enterprise's technical and organizational level and an assessment of its potential resources. In our view, this problem can be solved by introducing a new section -- "Development of Production Capacity". It is expedient to transfer many categories from the section on "Technical and Organizational Development" to this section, as well as to include in it the sections on "Indicators of the Increased Economic Effectiveness of Production" and on "Capital Investments" in their entirety. The listed categories and sections are aimed at uncovering potential production resources. The sum total of this section should be average annual normative production capacity.

Along with changes in structure, it is also necessary to improve methodological approaches used in working out the leading sections of the tekhpromfinplan as well as their mutual coordination.

A central place is occupied by calculated substantiation of the plan for output production and of the potential resources of enterprises and their subdivisions. Work on the *tekhpromfinplan* begins with defining the demand for output, and with determining developing production relationships and necessary measures to increase labor productivity and average annual capacity. As is known, product demand is formed by orders from the republic main administrations for material and technical supply under USSR Gosplan, by direct economic relationships with steady consumers or by planning organizations which determine technical prospects for the consumption of a given kind of output. As a whole, demand for products or services is usually larger than can be satisfied. This is a natural process. And only the enterprise can finally determine its detailed list of manufactured products or services in accordance with agreements concluded for their delivery and can, on this basis, compile a draft of the production program.

The most complicated process is determining the potential resources of an enterprise, including average annual production capacity, and ensuring that it is used to the maximum degree possible. It is repeatedly noted in economic literature that underutilization of production capacity results in the national economy losing many billion rubles worth of output annually. In fact, the number of working places considerably exceeds the number of working hands. Wherein lie the reasons for this discrepancy? On one hand, in a lack of supervision and a lack of responsibility of enterprises in the expenditure of funds for expanding production and, on the other, in defective methodical indicators for calculating production capacity. The standard methodology and sectoral methodological indicators for developing the *tekhpromfinplans* of enterprises do not make provision for planning increases in capacity. They also do not contain recommendations for coordinating the technical retooling plan with growth in production capacities. Under conditions of accelerated scientific and technical progress, such a situation cannot be considered normal.

In planning theory, the potential resources [ *vozmoshnosti* ] of an enterprise have been measured by the volume of average annual production capacity, while its utilization has been measured in terms of its relation to the volume of planned (produced) output which most closely approximates average annual capacity. In this case, it would seem that priority would be given to the planning of capacity.

However, this has not occurred in practice. The system of indicators requiring confirmation has included only indicators of growth in output volumes expressed in real or value terms while, as formerly, the planning of capacity has stayed in the hands of the enterprise. At the same time, growth in capacity was to have been less than the goal set for increased output production. Such a methodological approach cannot be considered right. In circumstances where industry is changing over to an intensive path of development, plans for new equipment are transformed into a supporting structure for the formation of technical and economic indicators. The

retooling process has a substantial influence on planning methods as well, inasmuch as the forms and stages of renewing the production apparatus are being changed.

At the moment it is carried out, complex retooling raises the plan indicators of subsequent years to a higher level in comparison with average annual growth rates under piecemeal improvement in technological processes. Thus, the economic effect of basically new technical innovations are felt at once, and are not drawn out over many years. The methodological approach being advanced has other advantages as well. With its help, a normative base is created for enterprises to take on intensive annual plans, accelerated introduction of scientific and technical achievements and of new products are stimulated, etc.

However, standardized substantiation of production capacity requires new instructions on how to determine it. The standard instruction for calculating production capacities (especially for machine building and metal-working enterprises) are more than 50 years old. They have been repeatedly reissued during this time. (Footnote 3) (See: "Instructions for Determining the Production Capacity of Machine Building and Metal-Working Plants", Moscow, Gosplanizdat, 1959 and "Intersectoral Instructions for Determining the Production Capacity of Machine Building and Metal-Working Plants, Moscow, NIIMASH, 1970.) Calculation methods set forth in them remain unchanged. They repeat approaches and methods for calculating capacity which were designed for antiquated equipment (widely general-purpose machine tools and machinery) and select, from the entire supply of equipment, a leading group of similar machine tools on the basis that the most important technological operations or the largest expenditures of machine tool time are carried out on them, etc. In the process of changing industry over to an intensive route of development, new methodological approaches to calculating, planning, and evaluating potential resources of enterprises are necessary.

Methodological recommendations for determining production capacity volumes stem from a concept of capacity which developed under conditions of extensive development many years ago. It is true that studies in recent years have registered certain changes and conceptual refinements, but its basic content is preserved.

Instructions for calculating capacity and methodologies for planning define the production capacity of an industrial enterprise as the maximum possible annual (daily, workshift) output of products or volume of raw material extracted and processed, in the product mix and assortment envisaged by the plan. (Footnote 4) (See: "Standard Methodology for Developing the Tekhpromfinplan of an Industrial Association (Combine) and Enterprise", Moscow, Ekonomika, 1979.) At the same time, production capacity is calculated in terms of the volume of planned production, accepting the adequacy of the concepts of capacity and production volume. Moreover, the concept of production capacity is supposed to reflect the fundamental characteristics of the article itself (its properties, functions, and others). This is a general requirement for defining any concept. The

subject of our study is technological equipment, and its basic characteristic is its capacity to perform the technological operations for which it is intended. The question arises: Have the fundamental characteristics of technical equipment changed? During the years in which the methodological system of calculating production capacity has been in effect, new machine tool systems have appeared, along with fully mechanized and automated production processes, and industrial robots are being introduced everywhere, i.e. the fundamental characteristics of technological equipment have changed. These changes make it possible to move on to complex evaluation of the potential resources of production capacities and to define more precisely the concept of production capacity. In our opinion, it should reflect the maximum possible capacity of sets of technological equipment within a unit of time to perform a volume of work, calculated in technological labor intensity. Such a definition approximates the concept of potential resources of labor collectives. In this circumstance, the size of production capacity becomes an initial basis for formulating the production plan.

The methodological approach to selection of the leading link in the equipment park, on the basis of which the capacity of the entire production apparatus is evaluated, also seems to lack foundation. Methodological recommendations prescribe the selection even of an individual machine unit or group of similar machine tools which, in terms of their quantity and value, may be of insignificant importance and may maintain this disproportion in their workload.

The modern machine-tool park (especially of a machine building enterprise) includes hundreds of thousands of units. Taking into account the enormous variety of technological operations, of initial raw materials and intermediate products, and of technical requirements (quality, roughness, etc.), it is impossible to organize production using machine tools, lines and machinery with equal workloads in terms of time and capacity.

In practice, the entire park of technological equipment is diverse from the viewpoint of its utilization. In terms of this characteristic, equipment is divided into basic equipment (having a heavy workload in terms of time), on which series technological operations are carried out, and into auxiliary equipment (not having a full workload), intended for various finishing, touch-up, and special technological operations. The grouping of equipment according to the characteristic of its part in the manufacture of products, with determination of a standard work shift coefficient for each group, makes it possible to substantiate the size of production capacity for an entire technological complex.

We also cannot agree with calculating production capacity from the planned products list and assortment, although certain economists see in this a bringing together of the goal of production and of the means for achieving it. Such conclusions, in our view, are unconvincing. Unified approaches to

forming a portfolio of orders and an evaluation of the activity of enterprises with regard to fulfilling their contract obligations fixes the output products list to the enterprises. Making calculation of capacity dependent upon the output products list changes its meaning into that of a variable quantity, while the structure of the production apparatus remains the same. Any refinements in assortment, and these are unavoidable when putting together a portfolio of orders, will change the size of production capacity. Moreover, it is difficult to determine the potential resources of an enterprise before completion of work on the production program.

Considerable experience has been accumulated in industry with regard to methods of determining production capacities. For example, the Novokramatorsk Machine Building Plant production association, the Sumy machine building scientific production association imeni M.V. Frunze, and the Moscow Manometer production association are using one and the same standards as initial data in their calculations: a list of available equipment by groups, a normative shift coefficient of their operation, standards of processing and time, and quotas for reducing the labor intensity of machine tool operations. Certain of the listed indicators have been determined in various ways. In the Sumy association, for example, the machine shift coefficient has taken into account only losses in time for preventive maintenance, what is more in identical amounts, while at the Manometer production association time for carrying out these operations has been reflected in the nominal time fund. And the normative shift coefficient is based on the distribution of planned expenditures of machine tool time within the technological processes.

The above-named enterprises have used machine-tool labor intensity as the unit for measuring capacity. However, such an approach has raised the doubts of certain economists. Particular note has been made of the limited sphere for application of this indicator, of the impossibility of generalizing its use on the sectoral or regional levels because of the lack of agreement between norms of machine-tool time for the same type of operations at various enterprises. The proponents of measuring capacity in machine-tool labor expenditures have denied the expediency of determining a composite indicator for enterprises which produce different products, irrespective of the unit of measurement. In support of their position, they have pointed to the absence of results from reports on the utilization of production capacity. In their defense, we will add that the standard and sectoral methodologies for developing tekhpromfinplans, as well as the instructions for determining capacity, which are intended to provide methodological assistance to enterprises, and also the tekhpromfinplans themselves, are the working documents of the enterprises.

The measurement of capacity in machine tool norm hours also has other advantages. Calculations are substantiated by the same standards as are the



production program and the plans for labor and the prime cost of production. Moreover, capacity becomes the initial basis for technical and economic planning. Finally, when measuring capacity in machine tool labor expenditures, the interest of enterprises in effective utilization of their potential resources is strengthened.

The question of increasing the role of measures of labor in developing tekhpromfinplans is deserving of attention in this connection. Retooling of enterprises is aimed, first of all, at increasing labor productivity and output quality. It is evaluated by the dynamics of reduced expenditures of worker (machine tool) time for carrying out production operations. Therefore, when developing a production program, we cannot limit ourselves to compiling a products list, to determining volumes of commodity and standardized net output. Calculations must be supplemented by data concerning the dynamics of total expenditures of worker and machine tool time, in order to clarify tasks connected with their reduction and to shape a set of organizational measures.

The increased role of measures of labor in developing tekhpromfinplans has made it possible to improve the level of labor norm-setting, to strengthen the relationship of worker time expenditures with wages, etc. The labor intensity of operations is the basis for coordinating standardized capacity with the production program, for determining numbers of workers according to categories and specialities, and also for evaluating the effectiveness of innovations in equipment and technology and the growth of labor productivity.

The problem of determining the economic effectiveness of new equipment holds an important place in establishing national economic effectiveness. Most methodologies that have been developed recommend a formula of cited expenditures with the utilization of such elements as prime cost and relative capital investments.

However, it is practically impossible to use such a formula when developing tekhpromfinplans. National economic effect is not written into the economic accounting indicators of the plan, and particularly into indicators of labor productivity growth. The situation is different if the effectiveness of new equipment is reflected in reduced labor intensity of operations or output. Comparison of the cost of acquired technical innovations with reduction in labor expenditures makes possible real assessment of the expediency of equipment modernization and its economic effect in final results (the indicator of reduction in the output-capital ratio of operations). In our view, the following formula can be used for these calculations:

$$\Delta \Phi \leq \Phi \Delta T_n : (T_n - \Delta T) K_v,$$

(1) где  $\Phi$ ,  $\Delta \Phi$  — базовая стоимость фондов и увеличение ее в связи с вне-  
 (2) дрением новой техники;  
 $T_n$ ,  $\Delta T_n$  (3) нормативная трудоемкость работ и снижение ее в резуль-  
 (4) тате обновления фондов;  
 $K_v$  — коэффициент воспроизводства как выразитель прибавочного  
 продукта.

Key:

1. where
2. the base cost of fixed capital and its increase in connection with the introduction of new equipment;
3. Normative labor intensity of operations and its reduction as a result of capital replacement;
4. coefficient of reproduction as an expression of surplus product.

Let us assume that the cost of existing equipment comes to 5,000,000 rubles and that expenditures for retooling come to 520,000 rubles. At the same time, the labor intensity of operations is reduced from 100 norm hours (machine tool norm hours) to 90, giving a coefficient of reproduction of 0.75 (each ruble of capital investments reproduces 1 ruble 33 kopecks.). Substituting these values in the proposed formula, we find that requirements for inequality are not observed. Consequently, this equipment modernization variant is ineffective and needs to be reviewed. If, with the same capital investments, it were possible to reduce labor intensity by 13 percent, i.e. to reduce labor expenditures to 87 norm hours, effectiveness of returns on investment would be wholly achieved.

With the help of the method of utilizing the indicator of reductions in the output-capital ratio of production it is possible to determine increases in production volume, growth of labor productivity, returns on investments, etc.

A tendency has recently been observed toward reduction in the role of methods for determining the normative, plan and, particularly, the projected labor intensity of output. Meanwhile, their importance in long-range and current planning is increasing substantially.

In practice, it is not infrequent that an enterprise arrives at planned labor intensity all at once. The entire period of preparation for production passes before beginning to turn out products (for example, when building motor vehicles). The most effective capital-output ratio is achieved in this

• case, although sustained rates of labor productivity growth are not observed in the future.

• However, at a majority of enterprises, the process of increasing series production coincides with consecutive fitting out of the production process, on which much time is spent. It is natural that the total effect is reduced. The initial labor intensity of manufactured articles is usually high. Then, as the entire complex of equipment and facilities is introduced, it rapidly declines and reaches the planned level.

The various methods of determining planned labor intensity must be taken into account by methodological recommendations for calculating plan and prospective labor intensity. If prospective labor intensity should be determined by the method of direct calculation in accord with operational technology, then its plan size for each year of the five-year plan should be established by the analytic graph [grafoanaliticheskiy] method.

Problems of improving the structure and methods of calculating the sections of tekhpromfinplans require joint study by specialists in order to work out scientific recommendations for introduction into the practice of planning at enterprises.

Copyright: Izdatelstvo "Ekonomika", "Planovoye khozyaystvo", 1986

13032

CSO: 1820/195

## GENERAL

### GREATER ENVIRONMENTAL PROTECTION EFFORT URGED

Moscow PRAVDA in Russian 5 Jun 86 p 3

[Article by P. Poletayev, deputy chairman of the Commission of the Presidium of the USSR Council of Ministers for Conservation of the Environment and Efficient Use of Natural Resources: "Answerable to the Environment."]

[Text] The amount of money spent on environmental protection is constantly increasing from five-year plan to five-year plan. In the last ten years alone, more than 72 billion rubles have been directed toward this end, including more than 21 billion rubles in government investment, which has made possible a noticeable improvement in the state of the environment in many regions of the country. From 1976 to 1985, the dumping of sewage into our reservoirs was reduced by more than one third. Two hundred and forty-five cubic kilometers of fresh water have been conserved by using circulating and recycling water-supply systems, which is approximately equal to the average annual flow of the Volga River. All of this has significantly improved the sanitary conditions of the main water arteries in the basins of the Baltic, Caspian and Azov seas.

Despite the fact that new production plants are constantly being put into operation in the country, on the whole, the discharge of pollutants into the atmosphere by stationary sources is steadily decreasing. During the 11th Five-Year Plan, the absolute decrease in this index was more than three million tons, and the level of recovery and rendering harmless of toxic substances from stationary sources reached 76.9 percent, in comparison with 74.9 percent in 1980. During the past five years, many regions of the country have succeeded in stabilizing the amount of car exhaust pollutants discharged into the atmosphere.

Comprehensive measures are being carried out everywhere relating to the conservation and efficient use of land, forest, fish resources, flora and fauna. During the last five-year plan, 692,000 hectares of land were returned to cultivation and reentered the national economy, more than half of which were used in agriculture. A great deal of work has been done in the area of protective afforestation. The use of biological methods for protecting plants from pests and disease is constantly expanding. In 1985, this technique made it possible to dispense with the use of toxic chemicals over an area of more than 32 million hectares.

A great deal of work has been done and, without a doubt, impressive results have been obtained. However, many farm administrators, in pursuit of immediate gain, are still trying to "economize" at the expense of environmental conservation measures to the detriment of long-range interests, and are not using or are misusing the financial and material resources allotted to them. During the previous two five-year plans, 15 percent of government investment in conservation of the environment was not used. The lowest level of use of funds was permitted by the USSR Ministry of the Coal Industry, along with krais and oblasts in the RSFSR and Kazakh SSR. Tasks concerning the putting into operation of water-conserving facilities at the enterprises of the USSR Ministry of Power Engineering and Electrification, the USSR Ministry of the Timber, Pulp and Paper, and Wood Processing Industry and the USSR Council of Ministers of the Uzbek SSR, as well as waste-gas treatment facilities at the enterprises of the USSR Ministry of Nonferrous Metallurgy and the USSR Ministry of Construction Materials have been fulfilled at a lower level than throughout the USSR as a whole. The construction ministries stand heavily in the environment's debt. Environmental conservation facilities are often treated as secondary concerns, their construction is delayed and then finished in a rush, thus resulting in poor quality of operation.

It is still often reasoned that spending money on environmental protection serves no purpose, for supposedly it produces no goods. This statement is a complete fallacy. For example, analyses carried out during preparation of the plan for 1986-1990 showed that the yield to the national economy from putting gas-refining facilities into operation at the enterprises of the USSR Ministry of Nonferrous Metallurgy will exceed two billion rubles, and from putting water-purification facilities into operation the benefit would be more than a billion rubles. According to the same analyses, the yield to the economy from putting water-purification facilities into operation at the enterprises of the Ministry of the Petroleum Industry will be approximately 400 million rubles. It is another matter that these funds are justified not only in the industrial sector, but also in the social one. The results cannot always be immediately felt in an industry taken in isolation.

The environment constantly reminds us that its resources are not at all infinite. In order to achieve success, the scale of environmental protection action must not only be expanded, but laws concerning conservation of the environment must also be drawn up and improved, and the strictness of their enforcement increased.

In schools, professional technical academies and institutes of higher learning, education on environmental protection is frequently presented in a very simplified fashion and is often an elective subject. At present, during school reform in the country when the university system is preparing for reorganization, it is very important to lay down a unified system for educating the upcoming generation in the spirit of love for their native environment and a zealous attitude toward its riches.

The draft of the five-year plan stipulates 14.5 billion rubles in government investment for environmental conservation. It is important that these funds

be used fully and yield the greatest return, that production processes which are waste free or produce few wastes are developed and implemented at an accelerated pace, and that nonrenewable mineral resources are used more efficiently and completely.

When dealing with environmental protection, it is necessary to be extremely cautious and have the ability to foresee the consequences of this or that economic decision. There should never be any attempt to justify the irresponsible position of those who, in the pursuit of immediate results and using government interests as an excuse, ignore common sense and the lessons of the past. Here is just one example. The harmful consequences of inundating the forests with power plant cisterns have long been known. However, the USSR Ministry of Power Engineering and Electrification and the USSR Ministry of the Timber, Pulp and Paper, and Wood Processing Industry are being extremely slow to remove sites for future cisterns from the forests.

The environment is arranged in such a way that less than one sixth of the total flow of our rivers is concentrated in the densely populated, most industrialized regions of the European section of the USSR. Under these conditions, it is extremely urgent to address the question of water economy. The annual nonproductive losses from water diversion of 13 percent during the last five-year plan should not be tolerated. Particular attention should also be paid to improving the state and restoration of the hydrolytic conditions of small rivers and cisterns.

Despite the measures taken, the situation with respect to conservation of the atmosphere in Krasnoyarsk, Norilsk, Zaporozhye, Omsk and several other cities is discouraging. The enterprises of the ferrous and nonferrous metallurgy, energy, chemistry, petrochemistry and lumber, pulp and paper industries cause the severest pollution of the atmosphere. This has aroused justified complaints from the population. Letters from citizens in Kemerovo Oblast concerning this issue have occasioned, as is well known, the discussion of priority efforts concerning conservation of the atmosphere at the meeting of the Politburo of the CPSU Central Committee.

The USSR Council of Ministers recently adopted a number of decrees in which specific measures were set forth relating to increased conservation of the atmosphere. The action planned should ensure a decrease in the discharge of pollutants into the atmosphere of almost 8.5 million tons by 1990. Here, as in other areas of the national economy, success will depend on how quickly the achievements of scientific and technical progress are incorporated into daily practice.

The fact is that up to the present, the main thrust in the treatment of waste gases from industrial enterprises has been the recovery of solid pollutants. To date, throughout the country as a whole, the recovery of such substances has been assured at 97 percent. But sulfur dioxide, compounds of fluorine, nitrogen and several other toxic substances are usually discharged into the atmosphere in a liquid or gaseous state, and less than a third of them are certain to be purified. The Ministry of Chemical and Petroleum Machine Building, which is the head ministry for the development and production of

dust and gas recovery equipment, has not been giving proper attention to the building of installations for the treatment of liquid and gaseous toxic substances which pollute the atmosphere.

In recent years in the country's agricultural industry, a great deal of work has been done on soil conservation (non-dumping processing, protective afforestation and the construction of anti-erosion, water-development, mud control and other facilities). However, significant improvement is still required, primarily in the area of maintenance and raising the natural fertility of the soil, where the most important factor should be continuous application of organic fertilizers which are increased from year to year.

In recent years, there has been a noticeable decrease in the rate of planting of field-protecting forest belts in the RSFSR, the Ukraine, Uzbekistan and Kazakhstan. There are significant shortcomings in the carrying out of land reclamation and the use of water resources for irrigation. In the plans for reclamation, issues of environmental conservation are as yet not being fully evaluated, raised bogs are being allowed to dry out, river beds are being straightened without reason and large canals without crossings for migrating wild animals, as well as irrigation systems with inefficient use of water resources, are being built. It is necessary to enter into a decisive battle with this state of affairs.

During the years of the five-year plan, approximately 700,000 hectares of deteriorated land are to be returned to cultivation and the planting of more than 270,000 hectares of protective forest belts is planned. In addition to the existing 151 game preserves, another 31 will be created with an area of approximately six million hectares. Solutions must be found for the tremendous problems of conservation of mineral resources and the restoration and improvement of the use of forest and fish resources.

The Soviet Union is supporting in every way possible the efforts undertaken by the United Nations in the area of environmental protection. The UN program on the environment, the international scientific projects of UNESCO in accordance with the program "Man and the Biosphere," the cooperation in this area by CEMA members and the activity of nongovernmental environmental protection organizations have become an important link in constructive international cooperation and, consequently, are aiding in the struggle for peace.

12793

CSO: 1820/191

END